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This panorama contains a study of the Italian economy, which analyses and interrogates both macro- and microeconomic issues. Italy's growth appears very vulnerable (steep contraction in 2012 with the country set to remain in recession in 2013, and the economy likely to shrink by -1.7% according to Coface), and our company payment experience is worse for Italy than for the rest of Europe. This fragility of Italian businesses results not only from the country's weak macro-economic performances (due to the continuing fall in productivity and weak innovation), but also from other factors. The country is characterised by a business fabric marked by a high intensity of micro companies, which are financially very precarious. Late payments by the public sector, which are recurrent and more frequently than elsewhere in Europe, also contribute to explain the company payment behaviour. Accordingly, the Italian business model, traditionally marked out by dynamic companies, exporters and strongly focused on manufacturing has entered a period of acute crisis.

We also present, in this panorama, the latest adjustments to our country assessment (which measure the risk of company payment defaults in a given country) and an update to the relevant country studies – including those of South Africa, Ireland, Japan and Tunisia – and of those currently under the spotlight, like Turkey.

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What has happened to the Italian business model?

By Guillaume Baqué, Jérémy Daltin, Julien Marcilly and Yves Zlotowski
Completed on 6 June 2013

Italian economic history has shown that the country is capable of spectacular rebirths: the industrial miracle of the 1950s and 1960s, successful expansion of the services sector in the 1980s after the oil shock of 1979. Still today some good elements of the *Italian business model remain*. It is, for example one of the eurozone's most industrialised economies: the added value of the manufacturing sector is still close to 16% of GDP (against less than 12.5% in France) and manufacturing jobs represent 18% of total employment (against less than 11% in France). In 2011 the peninsula had over 205,000 exporting companies compared with 117,000 in France. How can we reconcile these undeniable strengths with two worrying dynamics? Italian macro-economic performances since the crisis reveal an excessively vulnerable country liable to very deep recessions (in 2009 and again in 2012). The other worrying trend is more micro-economic: company payment behaviour has deteriorated more than in the other European economies. So, as in the past, can the Italian economy produce another "miracle"?

This study shows that the weakness of Italian growth is linked to long-term factors accumulated over the last ten years. Its external trade, though diversified and well specialised, also presents weaknesses and will not of itself be able pull Italy out of the rut. The macro-economic deterioration is in part behind the payment behaviour of Italian companies, but only in part. Other factors play a role. The extensive presence of weak SMEs and payment delays in the public sphere contribute to the specific Italian situation.

ITALY IN DEEP RECESSION

Sluggish domestic demand

Italian GDP recorded its 7th successive fall in the first quarter of 2013 and will undoubtedly continue to decline over the next two quarters. It is thus expected to shrink by 1.7% in 2013 (after a fall of 2.4% in 2012).

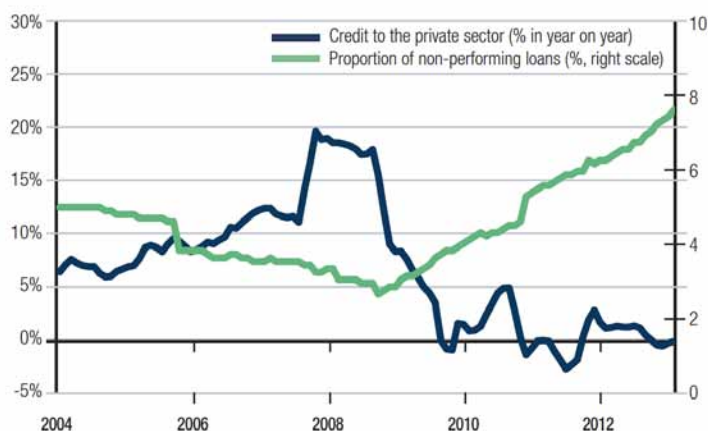
A sharp fall in household consumption

The persistent contraction of domestic demand is the main explanation for this recession. Household consumption is still adversely affected by the marked fall in household disposable income (-5.5% annually in the Q4 2012 in real terms). Still frozen public sector wages and a high unemployment rate (12% in April 2013) suggest that this trend will continue in the coming months. The new government's cancellation of the VAT increase, initially planned for 1st July next, is the only factor favourable to household consumption in the short term. Faced by this high level of uncertainty, households are continuing to save. Their savings rate has remained at 11% since the beginning of 2011. By way of comparison, it fell from 12 to 8% in the same period in Spain. Therefore, Italian households have not cut their savings to maintain their consumption in the context of a fall in income. However, they are the richest in the eurozone after Belgium, their net wealth [1] representing 182% of GDP at the end of 2012, against 132% in Germany and 137% in France. And about 65% in the United States!

Difficult access to credit

Companies and households also suffer from restricted access to credit. Concerns about the sustainability of the public debt explain the persistent high interest rates on bank loans, despite the European Central Bank's (ECB) very expansionary monetary policy. Although the key policy rate in Germany and Italy is the same, the average interest rate (for a loan to a household or a company with a maturity of 1 to 5 years) is almost double in Italy (close to 6% against 3% in Germany). This poor carry-over of the monetary policy to the real economy has led to a contraction of bank credit to the private sector, which adversely affects corporate and household investment. The high level of non-performing loans and the banks' desire to improve the quality of their portfolio explain this parsimony of the banking institutions with regard to the granting of credit: an extreme financial prudence which affects the cash flow of businesses (particularly SMEs) and their investment capacity (see page 7).

CHART 1
Credit to the private sector in Italy



Source: Bank of Italy

(1) Net household wealth is obtained by subtracting the value of household debt from that of their net worth.

Finally, the weakness of domestic demand is not offset by external trade. Though it has contributed positively to growth through a decline in imports and satisfactory performance on the export side (see page 4), it has not been able to offset the effect of the contraction of domestic demand.

In this context, the early growth indicators such as business and household confidence point to a continuation of the recession at least until the third quarter of 2013 inclusive [(2)].

CHART 2
Growth and confidence indicators

Source: Istat

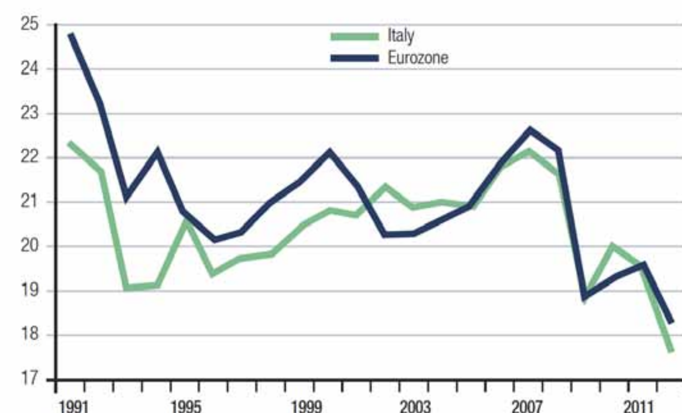
Weak potential growth, who is to blame?

But, these temporary weaknesses of the economy, in part linked to the 2008-2009 global crisis, must not hide the structural weaknesses inherent in the Italian economy. Its poor performances are not new: Italian growth has been on average one point below that of the eurozone for ten years.

The lack of capital is not to blame...

There are three components which explain a country's long-term growth: the growth of capital, that of labour market and that of productivity. The first is clearly not the reason for the persistent growth gap between Italy and the eurozone. Hasn't the level and evolution of the rate of investment in Italy been very close to that of the eurozone as a whole for the last 20 years?

CHART 3
Investment rate in Italy



Source: IMF

... but the low employment rate...

The main reason for the lack of growth lies in the low rate of activity. The employment rate is among the lowest in the developed economies (56.9% in 2011 against 72.6% in Germany, 63.8% in France and 66.6% in the United States). Though the rate for men is close to the OECD average, the employment rate for women is particularly low (only 46.5%) as is that for older workers.

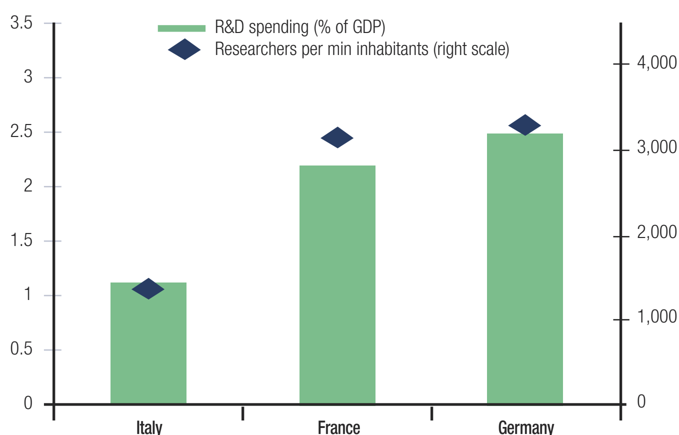
...and the lack of innovation is

Apart from these demographics, the slow pace of long- term growth is explained by weak productivity gains, for which there are many causes.

According to the ECB (2007) [(3)], the weakness of potential growth in Italy (only 1.3% against 2.2% for the eurozone as a whole between 1991 and 2004) comes from weak productivity growth (0.7 of a point p.a. against 1.4 in the eurozone). So, according to this study, the level of the contribution of productivity to growth is positively correlated to that of spending on research and development (R&D). In Italy this spending was only 1.1% of GDP p.a. between 1996 and 2010, or less than half of the German and French rates. Similarly, the number of researchers (per million inhabitants) is distinctly lower (see chart 4).

Besides this lack of effort with regard to R&D, the weakness of foreign direct investment probably also plays a role: FDI being an instrument for spreading innovation between countries. FDI inflows have amounted to only 0.9% of GDP on average since 1995 (against 1.3% in Germany and 2.2% in France).

CHART 4
R&D indicators in the Eurozone



Source: Eurostat

Ambiguous role of public debt

The high level of Italian public debt is often presented as being one of the causes of the country's poor productivity. Indeed, the public debt has increased by over 40 points during the last 25 years to reach nearly 130% of GDP in 2013. In theory, it could have had a stifling effect on private investment: high public debt attracts a large proportion of savings and thus limits the resources available for the private sector. Higher interest rates on government bonds associated with the high public debt impacts negatively on private investment via the rise in interest rates on bank loans and corporate bonds. But this stifling effect is disputable. Admittedly, government bond interest rates are at a high level today and the banks' credit conditions are tight (see page 2), but this is a recent phenomenon. The gap

(2) After the GDP contraction of 0.5% quarter on quarter during Q1, we predict a fall of 0.3% in Q2 and 0.1% in Q3, before a recovery of 0.1% in Q4.

(3) Cahn C. et Saint-Guilhem A. (2007) Potential Output Growth in Several Industrial Countries: A comparison, European Central Bank, working paper no 828, November

between the interest rate on Italian 10-year government bonds and that of Germany did not exceed 0.25% on average between 2000 and 2008, while Italian public debt was already distinctly higher. The level and the common trend of the investment rate in Italy and the eurozone confirm (see chart 3) that this high level of public debt did not penalise investment until 2008.

Moreover, in theory, this public debt necessitates a high primary budget surplus to compensate for the debt burden. It is likely to be attained to the detriment of growth-enhancing public spending. But, once again, the figures do not corroborate this idea: Italian government spending on investment reached 1.8% of GDP on average between 1995 and 2013, a level comparable to that of the Eurozone (1.9%) and even above that of Germany (1.7%) where growth was, however, noticeably higher. Despite a level of public debt higher than its neighbours, public investment nevertheless remained at a similar level.

So, a relatively low rate of employment and weak productivity gains linked to a lack of innovation seem to be the reasons for the weakness of Italian growth. One of the channels of transmission of between these weak productivity gains and growth lies in international trade. The current productivity problems, which adversely affect Italian exports, are in part a result of these weak productivity gains.

EXPORTS: WHAT ROLE FOR THE ECONOMY AND BUSINESSES? (4)

Between 2002 and 2010, external trade drove down Italian growth. On average it took 0.3 point from GDP growth when, during the same period, it took 0.4 point from French growth. At the same time, and unsurprisingly, external trade lead a positive contribution to German growth (even while it absorbed the negative external shock of 2009), i.e. +0.5 point as an annual average, over the period studied. However, the recent adjustment of the Italian trade balance gives some grounds for hope because, since Q1 2011, external trade cushioned (admittedly only very modestly) the recessionary shock of domestic demand. Of course, the two domestic and external dynamics are closely linked: the fall in consumption and investment has led to a strong contraction of imports. But if we leave aside this expected adjustment mechanism, exports have been fairly dynamic. Since the 2009 low point (the year of the recession and the contraction of world trade), Italian exports have increased by 26% in value and by 11.3% in volume. Thus the country has recorded a trade surplus since the last quarter of 2011. This reached nearly 19 billion euros in 2012 and the IMF forecasts 41.3 billion in 2013. This forecast seems optimistic: the German slowdown (13% of sales, main trading partner) and the French recession (11.6% of exports, 2nd largest trading partner) could affect the peninsula's performances. Even though in the short term, growth will not come from European partners, can the Italians count on the dynamism of their exports at least on the more distant dynamic markets?

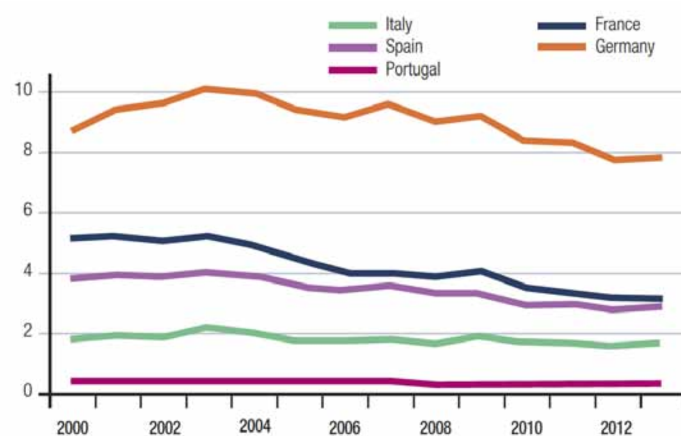
Some not inconsiderable advantages

After Germany, Italy is the most industrialised of the European economies, with a relatively varied specialisation. It has remained, above all, a net exporter of machinery and equipment (over 18% of total exports of goods). Metals and metallurgical products (5) (13%) are showing a positive balance from manufactured metal products (6) alone. Textiles – clothes, leather products (11%) – remain a strong point of the country, which also maintains a positive (but stable) balance in electrical equipment and furniture. Italy can then depend on two complementary dynamics. With a strong position in mechanical engineering and metal manufacturing, it is able to benefit from the investment boom in emerging countries. Such specialisation is pertinent in the context of priority for big infrastructure projects but also for the development of sectors which use processed metals, such as construction and motor vehicles. Infrastructures, housing and motor vehicles are priorities today for Russian, Brazilian, Turkish or Indian growth models. But «made in Italy» is an important trump card for meeting the strong demand of the middle classes for the distinctive luxury products sold by the major Italian brands. For a market such as China, where the demand for fashion products doubled between 2010 and 2012, Italy is already well positioned. Its market share is 20% for clothing and 25% for footwear.

Significant losses of market share

The performances observed show that Italian companies have rather missed the boat as far as emerging countries are concerned and have lost important market share since the creation of the euro (although they have not done significantly worse than their neighbours). Its market share of world exports fell from 3.8% to 2.8% between 2000 and 2012. Italy is doing better than France – in terms of momentum – which saw a drop from 5.1% to 3.2%. Nevertheless, German performances remain comparatively remarkable with a market share though eroding, remained at 7.8% in 2012 (against 8.6% in 2000).

CHART 5
Market share in global exports (as %)



Source: Eurostat

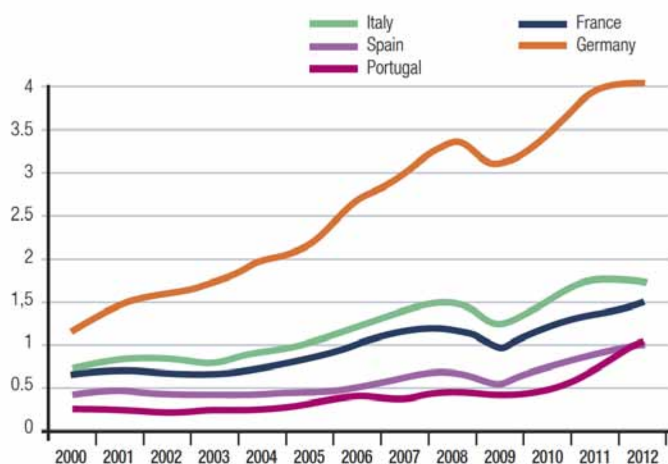
(4) Section written with Rémy Carasse.

(5) These data were drawn from The European Crisis and Changes in Italy's Model of Specialisation, Summary of the Report for 2011-2012. Italy in the World Economy, ITALIA, Agenzia per la Promozione all'estero et l'internallizzazione delle imprese italiane, National Statistical System, Ministry of Economic Development. July 2012.

(6) Italy imports from the non-EU area ingots and semi-finished products (raw metals with low added value) which Italian industry transforms. Thus, the country exports massive amounts of long products (rails, girders, concrete reinforcing bars) which serve the oil and construction industries. The country also exports flat laminates for the automobile industry, packaging and household appliances. This metals segment was nevertheless in decline in 2012.

As a whole, the «macroeconomic» impact of the emerging countries for Italy is not significant enough. The export of goods to the BRIC countries represents 1.7% of GDP (1.5% in France) against slightly more than 4% for Germany. Chart 6 below shows that this share has increased in the Italian case, but in line with the French trend. Again the trend is much more favourable in the case of Germany.

CHART 6
Exports of goods to the BRIC countries (% of GDP)

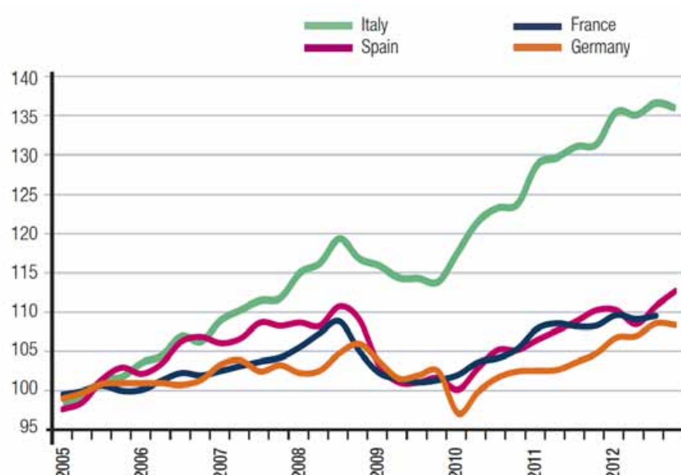


Source: Eurostat

An insufficiently exploited potential

Why is Italy's potential insufficiently exploited? It is primarily a matter of price competitiveness. In general, sensitivity to the price of exports constitutes an indicator of the significance of the added value associated with exports: the more sophisticated the goods, the less elastic the price because the quality of the product makes it possible to maintain high prices (and therefore comfortable profit margins). Indeed, the price elasticity of Italian exports is an obstacle: relative to the real rate of exchange, Natixis [7] puts it at 0.7 of a point, much higher than the big industrial exporting economies (0.3 for Germany and 0.1 for Japan). We note that Italy is less sensitive to price effects than its French and Spanish competitors (elasticity of 1.1 for both). Furthermore, Italian exports have seen their prices increase considerably – much more than in the case of the other eurozone economies, which, however, are subject to the same exchange rate effect. Between 2005 and 2012, unit export prices in Italy increased by nearly 36% against 9.3% in France and 8.2% for Germany.

CHART 7
Unit value of exports in dollars (2005 = 100)

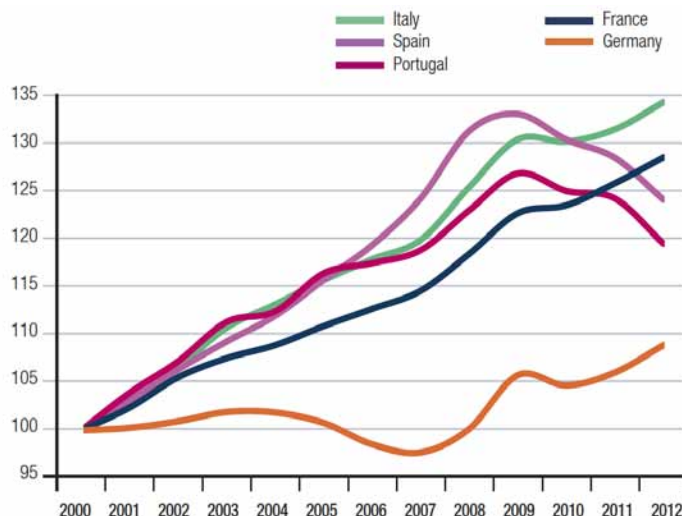


Source: IMF

These data must be interpreted with caution, insofar as several factors can explain such a trend. Processed metals prices have been strongly affected by those of the basic metals, which rose by 100% between 2005 and 2011. Moreover, some Italian products are expensive precisely because they belong to the luxury segment. The size of the differential shows however a specific problem of price rigidity in Italy. We would add that Italian export prices have been stabilising since the first quarter of 2012.

The price «rigidity» mentioned is the result of the unfavourable trend in domestic costs. Unit labour costs raised very strongly – by 35% – between 2000 and 2012 – the highest rise of the big eurozone economies. The rise in unit costs over the same period was 28% and 9% respectively for France and Germany. Moreover, since 2009, a fall in unit costs was recorded in Spain and Portugal (and also in Greece and Ireland), this reversal of the trend was not observed in Italy or France. So, at this stage, there is no visible improvement in cost-competitiveness.

CHART 8
Unit labour costs (2000 = 100)

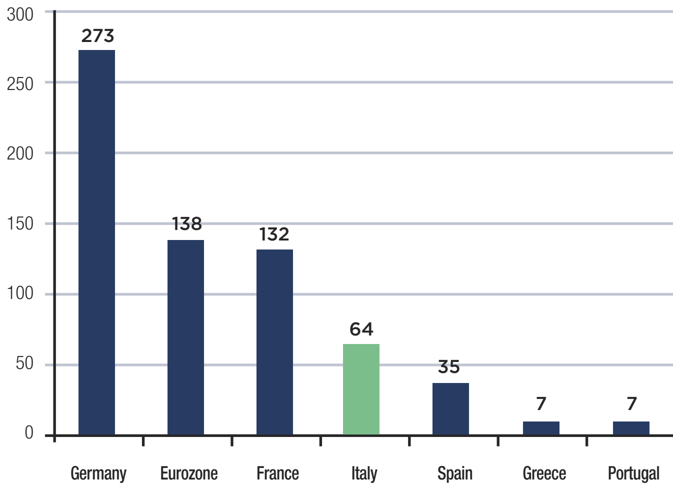


Source: Eurostat

In the Italian case, a fall in costs could increase the capacity for financing the modernisation of exports because R&D is a major issue for Italy. Indeed, the qualitative indicators emphasise the deficiencies on innovative capacity. Private sector spending on research and development relative to GDP is modest and well below that of Germany and France (see chart 4). The number of industrial robots bought in Germany was 19,500 in 2001 against 5,091 in Italy and 3,058 for France. Innovation measured by the number of patents lodged is distinctly less than for Germany and also for France, an essential indicator for judging the country's capacity for going up-market. We illustrate Italy's relative disadvantage in the chart below by the number of patents per thousand inhabitants lodged with the European patents office.

(7) Artus P. (2013) What is special in countries where the price elasticity of export volume (of the demand for the country's industrial products) is low? Natixis, Flash Economie, Recherche Economique, n°395, 24 May.

CHART 9
Number of patents lodged (2011, thousand inhabitants)



Source: Eurostat

We conclude that the financial weakening of Italian businesses weighs heavily: they no longer have the means to finance the modernisation of their exports and, on this type of indicator, the country is less well positioned than France. Italy seems to have entered a vicious circle in which the loss of competitiveness is compressing margins and blocking any improvement of competitiveness and thus the restoration of margins.

Italian businesses have undeniable experience and knowhow but lack the means to reinforce or even maintain the strong positions they hold in certain segments. More prosaically, the «export» factor is discriminating with regard to financial weakness. According to a survey by the Intes Sao Paolo Bank [8], based on a sample of 57,081 businesses in the manufacturing sector between 2008 and 2011, the contraction of turnover is distinctly more reduced when a business has an export activity. In such a case, the reduction in turnover was 4% against over 7% for businesses only present on the domestic market. Exactly as for the macroeconomy, exporting is not the panacea for all businesses (even for exporters, the turnover contracts!), but it has at least the advantage of alleviating the very sharp current adjustment in domestic demand.

ITALY'S ECONOMIC PERFORMANCE AND PAYMENT BEHAVIOUR

The rise in outstanding payments points to the second phase of the crisis

During the global crisis of 2008-2009, Coface recorded deterioration in the payment behaviour of Italian businesses. Conversely the return to growth in 2010 was concomitant with a reduction in claims, which returned to their pre-crisis levels. The second wave of the crisis, from mid-2011 led to a renewed upsurge of payment incidents.

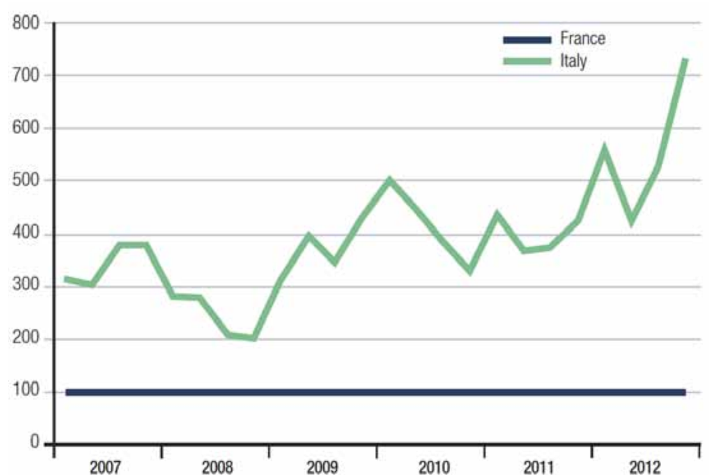
Whereas, in the past, outstanding payment incidents in France and Italy evolved in a comparable way, there has been a disconnection since the summer of 2011. This period, marked by a renewal of political instability in Italy, signals the beginning of prolonged decline and an increased divergence of macro-economic performances with Germany and also with France.

Beyond this short-term tendency, the late payment rate in Italy is historically higher than in France or Germany. Though it was seven times higher than that of France in Q4 2012, it was already three times higher six years previously.

CHART 10
Changes in the amount of outstanding payment incidents recorded by Coface (base 100 = Jan 2007, 3 month moving average)

Source: Coface

CHART 11
Evolution of outstanding payment incidents rate [9] recorded by Coface (base 100 = France)



Source: Coface

(8) Presentation by G. De Felice, Chief Economist of Intesa Bank Sanpaolo, at Coface's country risk seminar in Milan, on 29 May 2013.

(9) Ratio between total late payments over three months and the average amount outstanding over the same period.

Only weak growth can't explain the payment behaviour of Italian companies

Do Italy's macroeconomic performances explain the fact that the payment behaviour of Italian companies is systematically worse than that of more virtuous countries such as France? If so, what is the unique factor?

To answer these two questions, we first study the relationship between the payment incident rate and the quarterly GDP growth rate in France, Italy and Germany. Thus, we estimate the following relationship for each individual country:

$$latepymtrate_{i,t} = \alpha_i + \beta_i pib_{i,t} + \varepsilon_{i,t}$$

TABLE 1
Results of individual decreases between the rate of outstanding payments and GDP growth rates

Late payment rate	α_i	β_i	P-value*	R^2**
France	0.32	-0.18	0.00	0.68
Italy	1.06	-0.25	0.00	0.29
Germany	0.58	-0.16	0.00	0.46

** Allows checking of the significance of the variables. The p-value is the smallest of the values of α for which the decision would be to reject H0; α is the probability of wrongly rejecting the H0 hypothesis. α is also called first species risk, or test level.*

*** The coefficient of determination measures the share of the variance of Y explained by the model.*

Econometric analysis underlines three points. Firstly, all the coefficients associated with a growth rate are significant and negative, thus pointing to an inverse relationship between the growth rate and the outstanding payments rate in the countries considered. In other words, outstanding payments increase when the GDP growth rate falls. Secondly, the estimated elasticities are very close. Finally, the constants differ fairly sharply.

Furthermore, it is advisable to determine if the relationship between these two variables can be judged to be identical for all countries or whether there are, on the contrary, specific individual considerations (10). Parity coefficient tests confirm that the sensitivity of the rate of claims to variations in activity can be considered identical for France, Germany and Italy.

Although the elasticities are not significantly different, the constants differ from country to country. Thus, there are individual effects including the country's specific structural features other than growth. So, the individual effect associated with Italy is the highest. In other words, if Italian growth were identical to that of its neighbours, the late payments rate would not thereby remain any lower.

Italy's economic performances therefore have an impact on its payment behaviour. Its weak growth since 2007 is not the only factor explaining the fact that the payment incidents rate is at this point higher than those of Germany or France. Other factors are thus likely to play a role in the evolution of the payment behaviour of Italian businesses.

THE WEAK FABRIC OF ITALIAN BUSINESSES ON THE FINANCIAL FRONT

Italian companies: average profitability but declining sharply

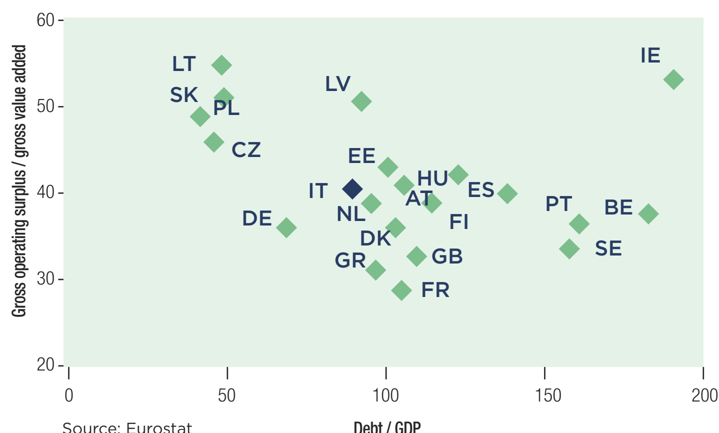
A snapshot of the average main financial ratios of Italian businesses shows that they are weak, but that they are not significantly different from other entities of the old continent. Firstly the margins and debt levels of Italian businesses remain within the European average. However, the capacity for self-financing (11) has long been below that of its European counterparts. This means that they are dependent on bank loans and, therefore, penalised by the toughening of credit conditions (see page 2).

Businesses with low debt but reduced profitability

Italian businesses' level of indebtedness (88% of GDP at the end of 2012) has been stable since 2008 and within the European average. Company profit margins (12) stood at 39% in 2012 (EU average is 40%). Italian businesses are in a slightly more favourable position than France with debt ratios and margins respectively of 108% and 28 in 2012.

The trend, however, of the Italian situation is worrying. Margins have fallen considerably since 2000. Their fall (-17%) is the biggest in the European Union (13). Over the same period margins in Germany increased (+10%) while those of France worsened (-9%).

CHART 12
Profits and debt of non-financial businesses, European Union (13) average between 2009 and 2012



Source: Eurostat

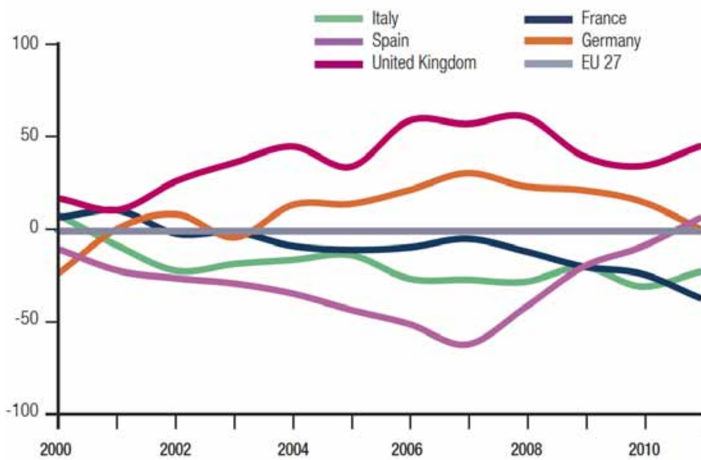
(10) At an econometric level this comes down to applying a homogeneity test procedure. Here we are using the procedure developed by Hsiao (1986) and we conclude using a data panel model with individual effects. The application of Hausmann's test (1978) leads us to adopt as a final specification a model with random individual effects.

(11) Cash Flow / Gross Fixed Capital Formation (GFCF)
(12) Gross operating surplus /Gross profit
(13) Excluding Bulgaria, Cyprus, Malta and Rumania

Potentially weak self-financing capacity

These pressures on margins have reduced the capacity of businesses to finance their investments themselves, which has accentuated their dependence on bank credit. Since 2001, Italy has had a self-financing rate consistently below the European Union average (see chart 13 below). Since then the tightening of credit to the private sector (a reduction in outstanding credits observable year on year since October 2012, see chart 1) maintains pressures on businesses' cash flow.

CHART 13
Self-financing rate (base 100 = EU 27)



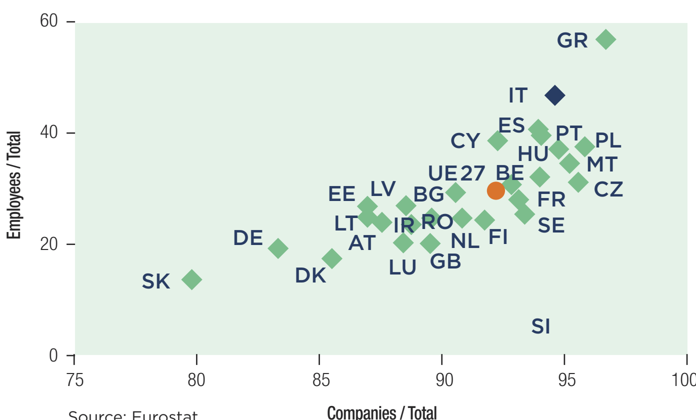
Source: Eurostat

Though access to credit plays a role in the current difficulties, a more structural factor is a key element: the substantial proportion of micro businesses.

Small structures dominate the italian fabric

Being more precarious, micro businesses suffer from less numerous sources of finance. Their investments, and accordingly potential increase in productivity, remain limited and dependent on les stable resources such as B2B credit. The distribution of Italian businesses is very concentrated: those with fewer than 10 employees represent 95% of the country's businesses and 46% of total employment. In this, Italy differs from its European peers and lines up with Greece (see page 2).

CHART 14
Distribution of businesses in the European Union with less than 10 employees (%, 2012)

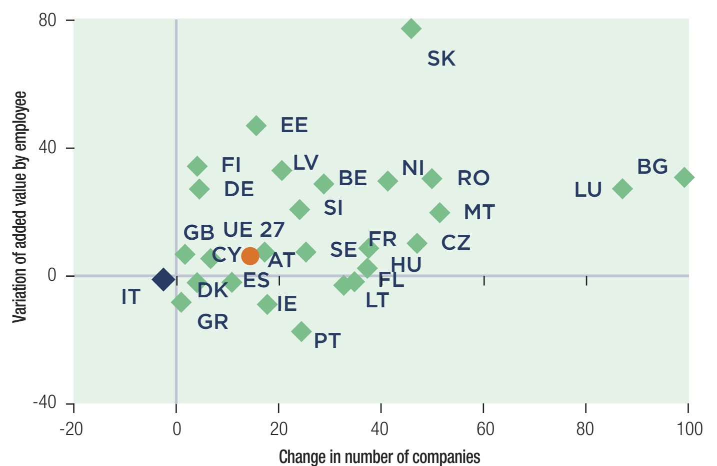


Source: Eurostat

It is generally acknowledged that the smallest structures suffer because they are not well known. Lenders will assess corporate risk according to the available information. They will either not finance borrowers they judge to be more fragile or they will increase their interest rates. Borrowing from the bank remains limited for this category of business in favour of B2B loans. According to polls carried out by the ECB [14], 87% of Italian businesses with less than 10 employees face obstacles in obtaining a bank loan compared with 80% in Spain, 63% in France, 47% in Germany and 61% on average for other eurozone countries.

Italian microbusinesses experienced a worsening added value per employee of 2.6% between 2005 and 2012 (chart 15), namely the sharpest fall of all European countries, while the number of such businesses remained stable over the period (-0.8%). This situation demonstrates a weakness specific to Italy. Indeed, this over-representation of micro businesses, which are less productive than their European peers, goes some way to explaining the country's weak productivity gains (see section 1).

CHART 15
Variation added value per employee for businesses with less than 10 employees and variation in the number of businesses with less than 10 employees between 2005 and 2012 in the European Union (%)



Source: Eurostat

The indebtedness of local authorities and the domino effect on the private sector

The large customers (public authorities or big businesses) put small and medium-sized enterprises at the end of the chain faced, under financial pressure by unilaterally extending payment deadlines. Indeed the differential between the average time for settling customers' and suppliers' claims can lead either to a cash surplus or a cash shortage. Such delays are also prejudicial to the profitability and the financial management of businesses, since external finance is then necessary to meet the need for cash.

The state, the biggest debtor to Italian businesses?

Payment terms in the public sector amply exceed 150 days, but periods of several years are not rare phenomena, particularly in the health sector. Arrears accumulated by the public sector with regard to private businesses are estimated at 91 billion euros, or 5% of GDP, according to the Italian Central Bank and 50% of public arrears to the private sector at European level [15]. This same study indicates

(14) «Survey on the access to finance of SMEs in the euro area (SAFE)», First half 2009, European Central Bank

(15) «Regards sur l'économie italienne» (2013), Direction Générale du Trésor français service économique d'Italie

that 4.9% of Italian businesses have arrears with the public administration, and even as high as 16% in construction.

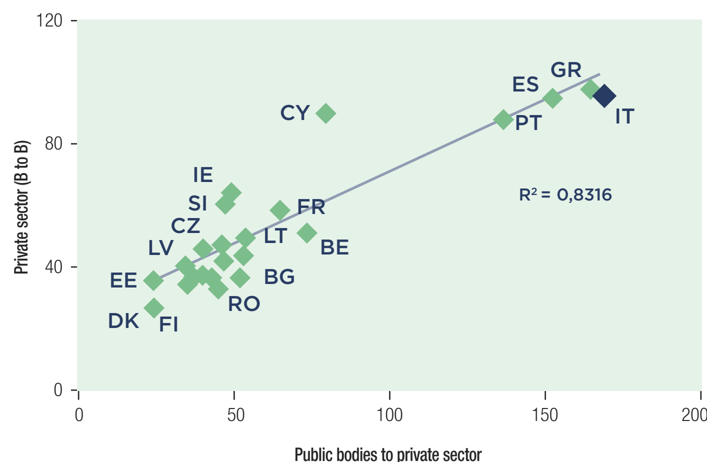
Thus, the payment terms of public institutions may spread to the private sector («domino» effect). In 2012, private sector businesses had to put up with long settlement periods on the part of public administrations, historically long in Italy (170 days), longer than in Greece (159 days), Spain (155 days) and Portugal (135 days). By contrast, French public bodies now pay in under 60 days against 70 in 2008.

Observation of average payment periods over the last five years of European countries as a whole [16] (chart 16), depending on whether it concerns trade between private businesses (on the vertical axis) or public and private bodies (on the x-axis) shows a positive correlation between these two variables. In fact, on the sample studied a simple regression line makes it possible to produce the hypothesis that long private sector payment periods can result from those imposed by the public sector.

Finally, the national transposition of European Directive 2011/7/EU, which applies from 1st January 2013, sets a payment period limit at 30 and 60 days unless another payment period has been negotiated. From now on deals are subject to the payment of interest in the case of delay. This directive applies to private businesses but also to public bodies. However, the slowness of judicial administration could limit the impact of this measure. The World Bank's assessment of doing business relative to the «application of commercial law» [18] puts the country in the 160th place out of 185 countries. Without an effective judicial body, the follow-up procedures seem doomed to an interminable wait.

The preponderance of small business structures accentuates the risk of default inherent to cash flow difficulties. Moreover, the lack of punctuality in the local authorities' payment settlements weakens the business fabric. These two Italian characteristics in part explain the higher level of outstanding payments in Italy than in other European countries.

CHART 16
Average payment periods between 2008 and 2012 by debtor in the European Union (days)



Source: European commission, Intrum Justitia

A problem more structural than economic

Conscious of the impact on the business world, the Italian government adopted an emergency repayment plan of 40 billion euros by decree on 6 April 2013, or for about half of the arrears registered. The payments will be fairly shared out between 2013 and 2014.

But this temporary puff of oxygen masks the structural difficulties. Indeed, the federal organisation of local authorities is based on their financial autonomy, which matches a central government standardisation system. These local authorities are required to balance their budgets, but, above all, to limit their debt to investment spending alone. In extreme cases, in order to respect this internal stability agreement, the local authorities are obliged to allocate a charge to the next financial year [17]. Thus this incomplete federalism is likely to slow down the public sector's settlement procedures.

CONCLUSION

Growth prospects in Italy remain unfavourable in the short term, even though we expect a slight recovery by the end of the year. Businesses will continue to suffer from this difficult economic context in the coming months. But, paradoxically, this deep recession has facilitated the adoption of ambitious structural reforms, which bode well for an improvement in the medium term.

For example, those aimed at liberalising certain markets for goods such as the energy sector should make it possible for businesses to achieve productivity gains by reducing electricity prices, which are currently among the highest in Europ [19] and thus by the same token, production costs. Likewise, the reform of the labour market of July 2012 aims in particular at increasing the rate of participation, one of the major brakes on growth.

It is by definition difficult to assess precisely the effect of these reforms on Italian growth, the more so since it depends on the proper implementation of the measures recently voted in. The difficult economic contexts as well as the imperfect cooperation between the government and the local authorities are factors likely to limit this effect. But, if they are fully implemented, these structural reforms on the labour and goods markets should make it possible to increase the growth rate by more than one point per annum over the next five years according to the IMF [20]. They should have the effect of improving the country's price competitiveness (reduction of unit labour costs by 5%). But this study has also highlighted the fact that weak growth is not the only explanation for late payments by Italian businesses, In this context, the State's intention to repay part of its payment arrears should also have a positive effect – that of at least temporarily increasing businesses' financial health.

(16) 25 countries other than Luxembourg and Malta

(17) Maria Francesca Sicilia and Ilena Steccolini (2013), «Payments: three ways of making Italian public administration pay on time», University of Boconni, Italy

(18) «Enforcing Contracts» Doing Business 2013

(19) They are 50% above the European average

(20) International Monetary Fund (2013): "Assessing the Macroeconomic Impact of Structural Reforms: «The Case of Italy», Working document No 13/22, January.

COUNTRY RISK ASSESSMENTS CHANGES

Assessment either upgraded, or removed from negative watch list or placed under positive watch list

Country	Previous CRA	New CRA
Japan	A1↘	A1
Iceland	A4↗	A3
Ireland	A4	A4↗
Philippines	B↗	A4
Ecuador *	C	B
Ivory Coast	D	D↗
Poland	A3↘	A3

Japan: A1

- The yen depreciation since the end of 2012 in the wake of the BoJ's expansionist monetary policy has underpinned exports in value and improved Japanese international firms' financial results
- Fiscal stimulus has sustained public investment in infrastructure
- The rise in stock indices has enhanced household's wealth effect and boosted private consumption
- 1.4% growth is expected in 2013

Iceland: A3

- Gradual deceleration of inflation (3.3% in April 2013à) since 2012 January peak (6.5%) due to the monetary policy tightening.
- The increase in real wages combined with the low level of unemployment has underpinned households' consumption offsetting export slowdown to the European Union commercial partners.
- The krona should remain fairly stable thanks to capital controls.
- 2.3% growth is expected in 2013

Ireland: A4↗

- Growth has been stronger than expected in 2012 (+0.9%) and is likely to remain positive this year (+0.9%) and to strengthen in 2014 (+1.8%).
- Foreign trade contribution to GDP growth should narrow but that of domestic demand should strengthen gradually. The latter is still handicapped by the austerity policy and the lack of credit but household debt started to narrow, the labour market improved and residential property prices have stabilised. Corporate insolvencies remain high but investment returned to positive territory.
- The current-account surplus surged to 4.8% of GDP reflecting not only the contraction in domestic demand but also competitiveness gains.
- Investor confidence strengthened and the country started to tap the international bond market again.

Philippines: A4

- The Philippines' macroeconomic fundamentals have improved considerably over the past years
- The country has posted a growth of 6,6% in 2012 and 7,8% in Q1 2013 driven by strong internal demand and investments.
- There is a reliable stream of remittances from Filipinos working abroad supporting consumption and the current account
- President Aquino has just been strengthened after midterm elections and focuses on improving governance

Ecuador: B

The institutional environment and macroeconomic policy have improved since the coming to power of President Correa in 2007.

- The political landscape has stabilized. Social unrest, such as strikes, blockades of roads, has become rare. - The party in power has a strong popular support, yet manifested in the last elections in February 2013 that provided it with a large majority.
- This action is made possible by the increase in traditional fiscal resources through the effective fight against tax evasion. Public debt is down to 22% of GDP.
- The authorities are keen to attract foreign investors by using tax incentives, reducing its intervention in the private economic sphere, minimizing the role of the commission of the debt (which had ruled illegitimate and reneged part of external sovereign debt in 2008).
- In this context, the development prospects of the oil, mineral and electricity production are good.
- Financial information is of average quality. Justice (Commercial) is long and creditors must have the appropriate documents, if they want their rights to be better protected.

Ivory Coast: D↗

- The country more than made up for lost ground in 2011, growing by an impressive 9.8% in 2012, and growth is expected to reach 8% each year in 2013 and 2014.
- Progress has been made in the implementation of structural reforms (business climate, energy sector, cocoa sector).
- The country achieved the full regularisation of its external debt following the attainment of the HIPC initiative completion point in June 2012.
- The security situation remains difficult but the challenges of reconciliation and the sporadic attacks attributed to pro-Gbagbo forces do not appear to significantly impact the economy.

Poland: A3

- Poland didn't record output contraction in the last quarters. The real GDP rose by 0.1% between the fourth quarter of 2012 and the first quarter of 2013.
- Since November 2012, the polish central bank is loosening its monetary policy in order to boost consumption and private investment.
- The currency depreciation seems under control and improves the polish competitiveness.

* including the business climate assessment

Assessment either downgraded, or removed from positive watch list or placed under negative watch list

Country	Previous CRA	New CRA
South Africa	A3↘	**A4**
Czech Republic	A3↘	**A4**
Slovenia	A3↘	**A4**
Tunisia	A4↘	**B**

South Africa: A4

- Slowdown of activity (2,5% in 2013) in a context of low external demand (EU).
- Tensed social situation (strikes, current wage negotiations in mines and automotive sectors).
- Increasing costs for corporates with rising wages.
- Lower latitude for fiscal policies.
- Currency depreciation (lowest level in 4 years).

Czech Republic: A4

- 6 quarters of output contraction in a row (-1.1%, QoQ in Q1 2013).
- Open economy (exports account for 73% of GDP) especially toward the euro zone which would contract by 0.6% in 2013.
- Increase in structural unemployment (long time unemployment represents 37% of total unemployed versus 23% in 2009).

Slovenia : A4

- 7 quarters of output contraction being recorded (-0.7%, QoQ in Q1 2013).
- Weak banking system, non performing loans are increasing and represent 20% of total loans.
- High corporate debt (85% of GDP).
- The economy is exposed to euro zone and more specifically Southern Europe which would contract in 2013.
- Slowdown of public spending affecting activity.

Tunisia : B

- Increased socio-political tensions, with many economic and social challenges.
- A slower GDP growth expected in 2013.
- The continuation of large deficits of the public and external accounts.
- Fragilities of the banking sector and the business environment.
- An increase in payment incidents and a lengthening of debt collection.

China

Coface Assessments

Country risk	A3
Business climate	B
Medium term	LOW RISK

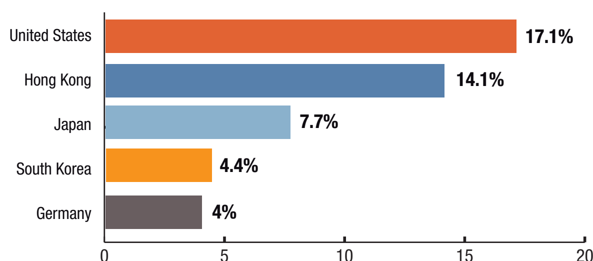
Main economic indicators

	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	10.4	9.2	7.8	8.0
Inflation (yearly average) (%)	3.3	5.4	2.6	2.8
Budget balance (% GDP)	-1.7	-1.2	-1.7	-2.0
Current account balance (% GDP)	4.0	2.8	2.3	2.5
Public debt (% GDP)	33.5	25.5	22.8	21.3

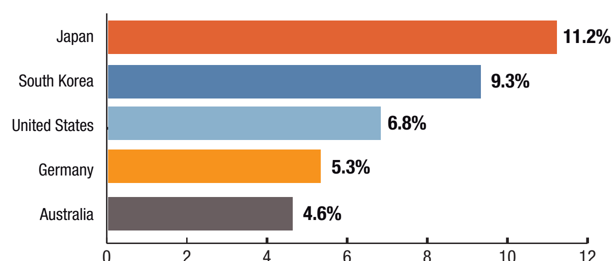
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Slight rebound in 2013

After continuing to slow until the 3rd quarter 2012, activity picked up in the 4th quarter. Growth was however only 7.8% in 2012 and 7.7% in the 1st quarter 2013. Whilst the performance in the 4th quarter 2012 and the targeted stimulus measures promised a sharp rebound in the growth rate, key indicators for the first four months of 2013 reveal an outcome below expectations. The level of expansion in manufacturing output matches that of the worst period of the Lehman Brothers crisis because of impact of a destocking process within the industrial sector. These overcapacities are also leading to lower prices. The volume of raw material imports is down since the beginning of the year, confirming the reduction in demand from the industrial sector.

Household consumption continues to grow moderately. There has been a slowing in the growth rate of incomes together with an increase in the savings rate. The measures implemented by the government have not all had the expected impact. In the same way, the continuing growth in credit has not had a major effect on the level of activity. The Chinese authorities are not currently considering any further measures.

Property prices are still rising and demand remains high. Since the beginning of 2013, the sectors related to construction and infrastructures have returned to strong growth. The construction sector is thus likely to have a positive impact on growth this year. However, manufacturing industry and services are marking time. Chinese exports are becoming less competitive (appreciation of the yuan and increased cost of production) and the European and American economies remain flat. A reform of the Chinese economic model is thus required, with more targeted investments to prevent overcapacity and the household consumption becoming the driving for for growth (as stated by the authorities).

Weaknesses persist at the level of SMEs, the banks and local authorities

SMEs faced several shocks in 2012, notably substantial wage pressures and problems of access to finance. They are increasingly turning to the informal credit system, which applies usurious rates. In a context of sluggish external demand, these SMEs – which account for 68% of exports – could quickly find themselves in difficulty.

Despite the encouraging results of the strength tests on the largest retail banks, the banking sector could also suffer in the medium term as a result of the problems in the property sector and faced by local authorities whose total debt now amounts to 27% of the GDP. The risk of a string of defaults is likely to be avoided thanks to the intervention of the State which put in place conditions for refinancing this debt in 2012. However, this does not exclude the risk of occasional defaults by local authorities or second tier banks. The State, seeking to avoid the risk of moral hazard, could be tempted to make some isolated examples. At the same time there is also a rapid rise in shadow banking. In a situation where savings rates are very low, savers are turning towards highly opaque structured products. At the end of 2012, Huaxia Bank was unable to honour payments on a product that had reached maturity.

Shortcomings in the business environment

The political transition is being made with the emphasis on continuity: Xi Jinping and Li Keqiang, respectively President and Prime Minister since March 2013, are adhering to the line of their predecessors. They will have to take into account the social tensions which remain strong mainly because of the recurrent confiscations of agricultural land for the benefit of property developers and the inequalities between the countryside and the towns. Their first few months in the office demonstrate their willingness to reduce the level of inequalities, with the boosting of household consumption at the heart of the government's policy. Meanwhile relations between China and Japan have deteriorated since September 2012 after the Japanese government's decision to buy out the Senkaku-Diaoyutai islands from their private owner. These tensions over the sovereignty of the archipelagos in the China Sea are not isolated, as is shown by the recurrent conflicts concerning the Paracels and Spartleys islands between China, Vietnam, Indonesia and the Philippines. Despite this rise in tensions, an armed conflict in the region remains unlikely at this stage.

Finally, major governance shortcomings persist, especially with regard to access to companies' balance sheets. The recent hardening of the conditions for obtaining financial information on businesses continues to be a key concern.

Strengths

- External accounts benefitting from competitiveness and industrial diversification
- Limited risk of external indebtedness thanks to high level of foreign exchange reserves and a current account surplus
- Sovereign risk contained: public debt is mainly domestic and denominated in local currency
- Gradual move up-market
- Infrastructure development boosted by stimulus package
- High corporate savings rate financing the bulk of investments

Weaknesses

- Social tensions linked to rising inequalities
- Share of consumption in GDP remains low: the rebalancing China's growth model remains a medium term challenge
- Ageing population and pool of abundant cheap labour gradually drying up
- Overcapacity in industry and trade
- Weak China's banks, considering the credit dynamism and uncertainties concerning level of non-performing loans
- Environmental problems

Cyprus

Coface Assessments

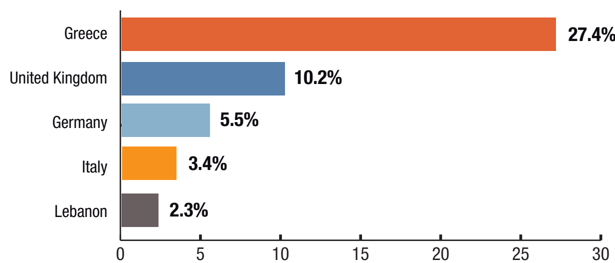
Country risk	C
Business climate	A3

Main economic indicators				
	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	1.1	0.5	-2.4	-7.5
Inflation (yearly average) (%)	2.6	3.5	3.1	1.4
Budget balance (% GDP)	-5.3	-6.3	-4.8	-6.1
Current account balance (% GDP)	-9.9	-10.4	-7.9	-1.3
Public debt (% GDP)	61.5	71.6	87.3	148.0

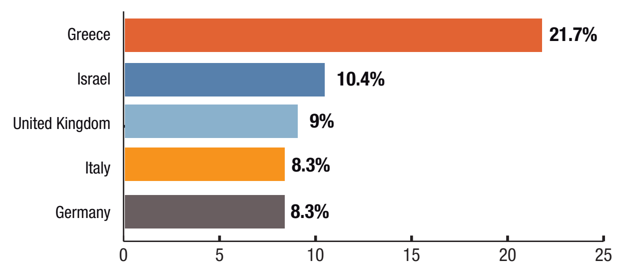
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Domestic demand being held back because of the conditionality of the assistance plan for the country

On 25 March 2013, Cyprus and the Troika (ECB, IMF and European Commission) reached agreement on a 10 billion euro aid plan that would be due for repayment in 10 years and over a period of 12 years, at a rate of 2.5%. An initial payment of 2 billion was made in May 2013. The agreement was notably conditional on the restructuring of the banking system, an increase on the rate of corporation tax (from 10% to 12.5%) and on the privatisation of nationalised assets. The Cypriot growth model, which is based around financial services (30% of GDP) therefore needs to be reinvented. In this context, the Cypriot economy will contract by almost -7.5% in 2013. GDP overall could fall by between 20 and 25% in volume within 5 years. As a consequence, the rate of unemployment was higher than the Eurozone average in 2012 at over 12% of the active population, and could reach as high as 20%. The number of job seekers has thus tripled since 2009 (and doubled in 2012 for long-term unemployed). The reduction in civil servant salaries (of between 6.5% and 15.5%) and high level of household debt will continue to hit household consumption which will remain depressed in 2013. Public sector employees are set to be cut again (between 0.8% and 2%). At the same time private sector investment will remain weak because of the level of company debt, the increase in the corporation tax rate and the sharp decline in the supply of credit following the restructuring of the banking sector. On top of this, following the bursting of the real estate bubble, the construction sector will remain depressed. Finally, the budget cuts, required by the troika as a condition for the aid, will reduce public investment.

Public finance cuts

The banking system was severely damaged by the Greek crisis. The Cypriot banks, because of the close cultural and economic links with Greece, suffered hugely, not just because of the Greek economic crisis as such, but also and above all because of the depreciation imposed on Greek government bonds aimed at bringing the debt down to a sustainable level. The losses of the Cypriot banks in the operation amounted to approximately 4.5 billion euros (25% of GDP). In March 2013, following on from the Cypriot aid plan, the country's second largest bank, which had been kept going since the beginning of 2013 on emergency liquidity, was allowed to fail. It was then split into a "bad bank" that would eventually perish and a "good bank" that held the deposits of less than 100,000 EUR. Shareholders holding bonds and uninsured depositors with more than 100,000 EUR suffered significant losses, with the winding up of the bank. The country's leading bank, the Bank of Cyprus, took over the deposits guaranteed by the Laïki Bank, as well its debts with the ECB, estimated at 9 billion euros. Deposits in excess of 100,000 euros will be subject to a tax at the rate of at least 37.5%, with the depositors receiving shares in the bank in exchange.
The loan granted by the Troïka as well as the certainty of recession mean that the public debt will increase to almost 150% of GDP this year (87% in 2012). To reduce the level of debt, Cyprus will have to make a large number of budgetary adjustments. The Troïka has set the island the target of achieving a primary surplus (excluding debt servicing) of 4% by 2018. The government is however not going to be able to achieve the 3% deficit set by the Maastricht criteria in 2013 because of the fall in tax receipts with the decline in the economy.
The current account deficit should fall bearing in mind the reduction in imports with the decline in demand. However, the current account will remain in deficit under the impact of electricity and fuel imports. This is financed mainly by short-term capital, mostly from Russia and the Gulf states, which should however remain stable.

A huge challenge ahead of the new President

The pro-European candidate, Nicos Anastatasiades was elected President of Cyprus in February 2013. Given the measures being implemented by the President to meet the demands of the Troïka, serious demonstrations arising from a crisis of confidence in the governing institutions are a likely outcome. The latest tax on deposits and capital controls that have been imposed could alter the relationship of the country with Russia. The two leading Cypriots banks effectively held a very large proportion of the Russian deposits. The Russians are probably going to lose through this tax, up to 8 billion euros, depending on the rate applied. As for the scheduled negotiations on the reunification of the island, despite the efforts so far, there is still a great deal to do to iron out the differences. Specifically, Turkey is still vetoing the entry of Cyprus to the OECD and prohibiting access to Turkish ports and airports for all ships and planes having transited via the island. Although the first Cypriot surveys are not due until the summer of 2013, the potential of off shore naturel gas reserves has worsened the dispute, with Turkey already signalling its disagreement.

Strengths

- Attractive business environment
- Bilateral relations with Russia
- Significant tourism potential

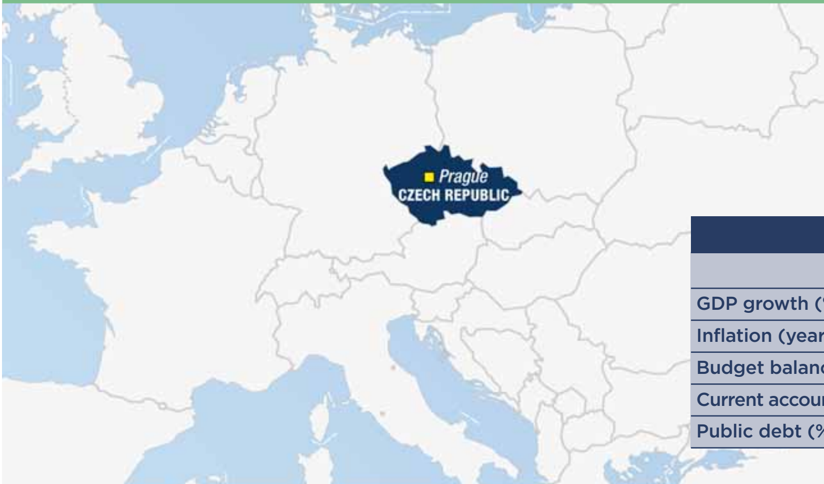
Weaknesses

- Critical level of public debt
- High level of private debt
- Banking sector out of scale and being restructured
- Doubts on the likelihood of the reunification of the island

Czech Republic

Coface Assessments

Country risk	A4
Business climate	A2

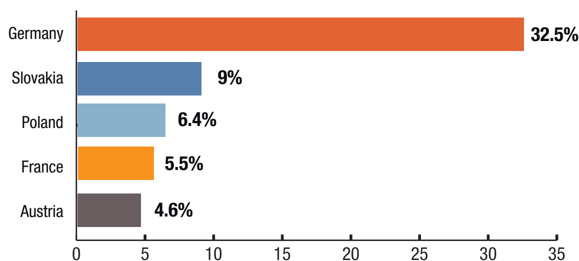


Main economic indicators	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	2.6	1.7	-1.2	-1.8
Inflation (yearly average) (%)	1.5	1.9	3.3	2.6
Budget balance (% GDP)	-4.8	-3.1	-3.2	-3.3
Current account balance (% GDP)	-3.8	-3.0	-2.0	-2.5
Public debt (% GDP)	37.6	40.5	43.1	45.0

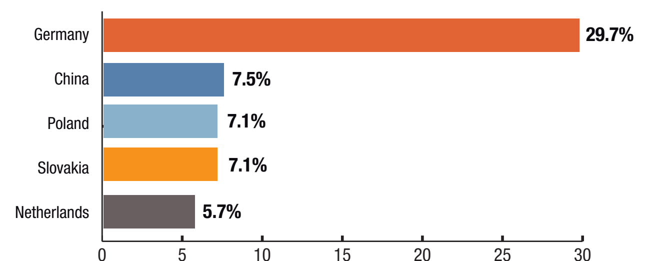
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Growth dependent on level of demand in Europe

In 2013, the Czech economy is going to suffer under the expected contraction of the Eurozone and the austerity policies being implemented. The doubts about the economic outlook as well as the political indecision about implementing another one-point increase in the rate of VAT are weighing heavily on household consumption, which represents 50% of GDP. The 2014 parliamentary elections will however lead to a slight relaxation in the austerity policies towards the end of 2013 which will result in upturn in consumption in the fourth quarter. The job market will continue to worsen whilst long-term unemployment now extends to 37% of the unemployed, compared to 23% at the end of 2009. The Czech Central Bank cut the policy interest rate three times during 2012, without any effect on consumption. It is now at its bottom rate of 0.05%. The country' economy is very open, with total foreign trade representing 145% of GDP in 2012. However the full integration of the economy into the European manufacturing process has not enabled the country to derive lasting benefits from the depreciation of its currency (reaching its lowest level since May 2010 in May 2013). On top of this, the country has a twofold exposure as the European Union gets 84% of its exports (66% for the Eurozone) and 17.5% automobile. In the 1st quarter of 2013, for the first time since 2009, exports were down, by 4.4% year on year, and no longer played a positive role in growth. Inflation in 2013 will be below the 3% level, but still above that of 2010 and 2011 because of the increase in VAT and the increased cost of imported products. In addition, the Czech banking system, majority owned by Eurozone banks, could be a potential source of concern. However, unlike in most Eastern European countries, the subsidiaries are mostly financed by domestic deposits and are conservative in terms of the prudential standards.

Reforms to improve the public finances

The government, put on notice at the end of 2009 by the European Commission, has, as of 2011, reduced the current account deficit to around 3% of GDP. Following fractious discussions within the coalition, the government approved a series of budgetary reforms (health and fiscal system) aimed at reducing the deficit and limiting the rise in the level of public debt. The most important reforms involved a reduction in tax benefits for house purchase savings and a toughening in the conditions for unemployment benefits. In addition, the implementation in 2013 of a reform passed at the end of 2011 (despite a considerable amount of criticism) will establish the principle of funded pensions, to gradually replace the unfunded system. The public debt, up ten GDP points since 2007, will remain at a sustainable level and enter a period of stabilisation. The current majority however would like to add to the constitution 4 critical debt levels linked with the implementation of the budget adjustments. If the public debt goes over 40% of GDP, preventative adjustment measures would have to be applied, as of 45% public expenditure would be frozen, above 48% the budget would have to be immediately revised to remove the excess, and a vote of confidence would be held on the government if the debt reached 50% of GDP. Investor confidence is crucial for the country because the current account deficit is covered by inward foreign investment, which has been weakened by the European economic environment. The Czech current account deficit contracted as of the second-half of 2011 mainly because of the weakening in domestic demand following the austerity policies being applied. The easing of these at the end of 2013 will translate into a slight rise in the current account deficit.

Reforms in a fragile social context

During the January 2013 presidential elections the Czech public gave voice to its discontent with the policies being implemented by the government. Milos Zeman (centre left, PSD) replaced the outgoing President Vaclav Klaus. In an attempt to give a democratic boost against the declining participation and popular discontent arising from ongoing corruption, the elections were for the first time held using direct universal suffrage. The President however still only has a representational role. For the last 10 years policy in, the Czech Republic with regard to the EU has been fairly ambiguous, a divisive element for the ruling coalition (non-ratification of the European budget pact, opposition to the banking Union). This gave rise to concerns about a marginalisation of Czech diplomacy at the European level although the country retains its interest in joining the Eurozone. The already fragile parliamentary majority of the centre-right coalition is under threat as a result of growing dissension within its ranks. Following the extensive victory by the Social-Democcrats in the regional and Senatorial elections of October 2012, the opposition is calling for early parliamentary elections in order to prevent a political impasse until June 2014.

At the same time corruption remains evident in the country as evidenced by a number of affairs involving Ministers.

Strengths

- Strongly integrated into international production chain
- Favoured destination for foreign direct investment in central Europe
- Current account deficits, external debt, foreign currency indebtedness and credit growth contained

Weaknesses

- High dependence on European demand: exports represent 84% of GDP, of which 67% are to the EU
- Aging population

Ecuador

Coface Assessments

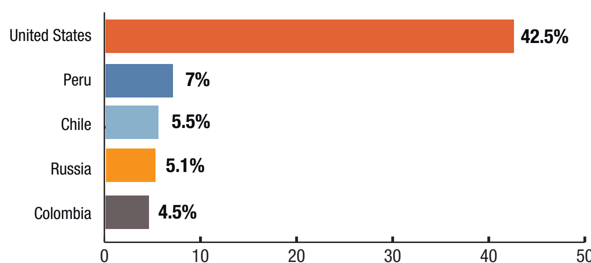
Country risk	B
Business climate	B
Medium term	HIGH RISK

Main economic indicators	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	3.3	7.4	4.8	3.7
Inflation (yearly average) (%)	3.6	5.4	5.1	4.5
Budget balance (% GDP)	-1.6	-1.0	-2.5	-2.0
Current account balance (% GDP)	-2.6	-0.2	-0.5	-1.5
Public debt (% GDP)	20.0	19.0	22.0	23.0

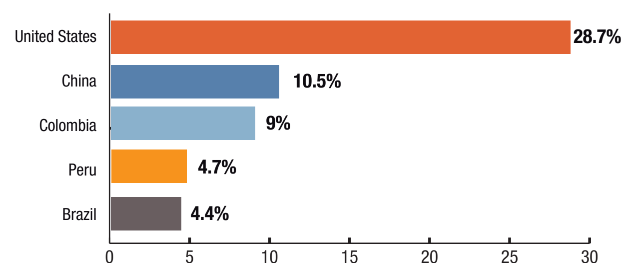
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Lower level of public expenditure underpinning activity

Activity will slow further in 2013, but much less than in 2012. The fall in oil prices will lead to reduced government revenue. In order not to worsen the public finances, and with the electoral episode over, the authorities will cut back on public expenditure to a certain extent. The share of public consumption and investment in the economy will still remain large. The expected increase in private investment (hydroelectric plant, refinery and mine) should partly offset this. Elsewhere, the authorities will continue with their policy of holding household consumption down with the aim of reducing the pressure of imports resulting of the inability of the local manufacturing sector to meet demand. The law passed in 2012 aimed at implementing firmer controls over credit, namely in the property and automobile sectors, and the major role of the public sector in banking, will help in this. Despite the upturn in remittances from expatriates in the United States, the current account deficit should worsen slightly because of increased imports of refined products following the shutdown of the main refinery for maintenance.

Public accounts dependent on oil

Oil revenues make up a large proportion of public resources (45%). However, the budget is regularly in deficit, preventing the build-up of reserves that could be used in the event of a fall in prices. Diversification of the resources is being sought through the development of mining resources with which the country is well provided. Despite some progress, traditional public revenues remain limited, in particular, by tax evasion supported by a large informal economy. Debt, though growing slightly remains low. Its external portion is very largely held by China and regional multilateral organisations, while the private sector portion collapsed in 2008 as a result of the deliberate default by the Ecuador state, which did not recognise its legitimacy.

Foreign investors' caution

The current account is slightly unbalanced. Imports slightly exceed exports, made up half by oil and the rest by bananas, shrimps and other marine products, flowers and cocoa. The main destinations are the United States and the countries of the region. Imports are driven both by consumption and investment in infrastructures, oil and mining. They are holding up against the increase in customs duties and quota reductions introduced in 2012, which suggests that these measures will be hardened. With regard to the balance of services, freight costs (insurance, transport) linked to trade and oil services paid to foreign companies greatly exceed revenues from tourism. On the other hand, with regard to the financial account, the sums sent by Ecuadorians who have emigrated to the United States, Spain and Italy are well in excess of dividend repatriations by foreign companies. Since the 2008 default and the resulting deterrent cost of access to the private market, the external deficit is funded largely by China and the remainder by regional multilateral organisations; Chinese loans are secured on future oil revenues and electricity production which they contribute to develop. Foreign investors remain cautious despite the progress in governance and the imminent adoption of more favorable legislation regarding the exploitation of oil and mineral resources. Corruption, the advantage often given to national companies in the granting of markets, price control more or less offset by subsidies, difficulties in having the validity of claims recognised before the courts, the risk of expropriation and legislative reversal remain. The authorities are however seeking investments for the development of mining resources, to revive stagnant oil production and to diversity the electricity production using dams and wind power. The agricultural and manufacturing sectors will remain unattractive because of the lack of competitiveness resulting from the rigidity of the labor market and the appreciation of the exchange rate due to inflationary pressures and the dollarization of the economy.

Social progress dependent on oil resources

President Rafael Correa won the presidential election in February 2013 with 57% of the vote and his party Allianza Pais nearly three quarters of the seats in Congress against a divided opposition. Oil resources have enabled the development of social programmes and higher subsidies. However, the indigenous communities are critical of the inadequate social progress and the lack of consultation on the development of oil and mining resource, while the opposition press complains of abuses of authority. The dollarisation of the economy adopted in 2000 seems firmly entrenched. It allows non-transfer risk to be reduced by eliminating the risk of non-convertibility but does not eliminate it. Dollarization could, however, be jeopardized by severe financing difficulties related to a fall in oil prices.

Strengths

- Extensive resources: minerals (copper, gold, silver), oil, gas, hydroelectric
- Next energy self-sufficiency through hydropower
- Tourism potential, (flora, fauna, landscape, cultural heritage)
- Climatic diversity, allowing numerous crops: cocoa, coffee, bananas (world's biggest exporter)
- Marine resources (biggest shrimp exporter)
- Low public and external debt
- Dollarised economy

Weaknesses

- Poorly diversified economy, dependent on oil, vulnerable to external shocks
- Inadequate infrastructures (roads, dams) and poorly qualified workforce
- Oil production stagnating
- History of sovereign default
- Low level of national and foreign private investment
- State interventionism
- Expensive and still underdeveloped credit supply
- Opposition of indigenous and rural populations and ecologists to the exploitation of primary resources

Ireland

Coface Assessments

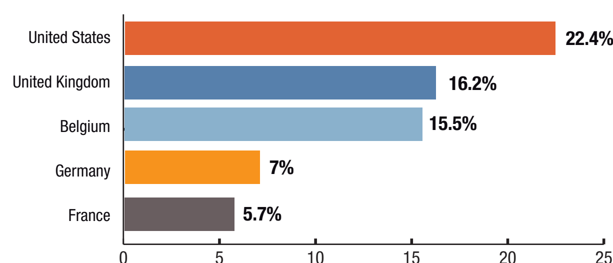
Country risk	A4
Business climate	A1

Main economic indicators	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	-0.8	1.4	0.9	0.9
Inflation (yearly average) (%)	-1.6	1.2	1.9	1.0
Budget balance (% GDP)	-30.8	-13.4	-7.6	-7.6
Current account balance (% GDP)	1.1	1.1	4.8	3.7
Public debt (% GDP)	92.1	106.4	117.6	124.0

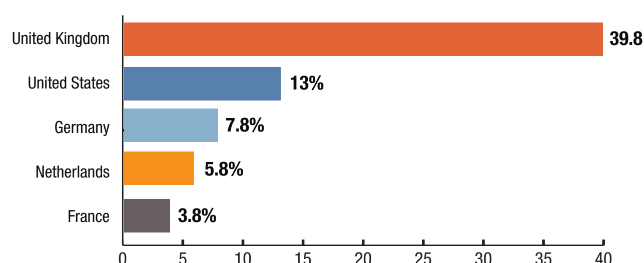
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Moderately buoyant external trade

Ireland - a very open economy with exports of goods and services slightly exceeding the GDP – saw growth slow in 2012 as a result of the European crisis. Less severely than expected, however, due to a slowdown in the decline in domestic demand. GDP growth should remain close to 1% in 2013. Foreign trade will continue to contribute positively to activity. Many sectors have made productivity gains which will boost their export performance. Chemicals, IT and telecoms equipment are therefore expected to post satisfactory results. At the same time, the expiration of certain patents should slow pharmaceutical exports. Agri-food is a key segment but margins are falling and the bankruptcies in 2012 point to the weakness of the industry. Services exports, in particular business and IT services, make up half of Irish exports and are currently growing more quickly than merchandise exports. The United States, which will continue to grow in 2013, use Ireland as an entry point to the EU and accounts for 20% of sales abroad. Nonetheless, despite the many advantages of Irish exports, 70% of sales of services are still absorbed by the European Union of which 22% by the United Kingdom alone. Accordingly, weak activity in western Europe will act as a major curb on the expected recovery.

Fiscal retrenchment and the lack of credit put pressure on domestic demand

The sectors oriented towards domestic demand will continue to suffer from the repercussions of a crisis of extraordinary dimensions. Private and public consumption will continue to contract but at a slower pace than in 2012. Austerity measures and the scarcity of credit put downward pressure on domestic demand but household debt – even if it remains huge (195% of disposable income at the end of 2012) - started to narrow, residential property prices have stabilised and the labour market improved (the unemployment rate declined to 13.7% in the first quarter of 2013). But for the time being, construction and distribution - marked by several bankruptcies in 2012 - continue to pose a high credit risk. Investment recovered in 2012 mainly driven by investment in aircrafts but other categories also appeared to have bottomed out.

Light at the end of the tunnel?

Ireland has been undergoing its convalescence with EU and IMF help since November 2010. The necessary bank disengagement is putting pressure on the real economy by creating a shortage of funding for the domestic private sector. The banking crisis also puts considerable pressure on the public debt, which will continue to rise in 2013. The government bailout of banks was particularly generous as evidenced by the massive public guarantees on bank liabilities. In any event, the conditionality under the EU/IMF arrangement is running smoothly. The arrangement ends in late 2013 and Ireland is expected, at that point, to be able to finance itself entirely independently over the long term on the markets. Taking advantage of the sharp drop in sovereign bond interest rates, made possible by the compliance with the IMF arrangement, the announcements made by European leaders during the summer of 2012 and, more recently, the restructuring of the IBRC debt, the country started to tap the international bond market again.

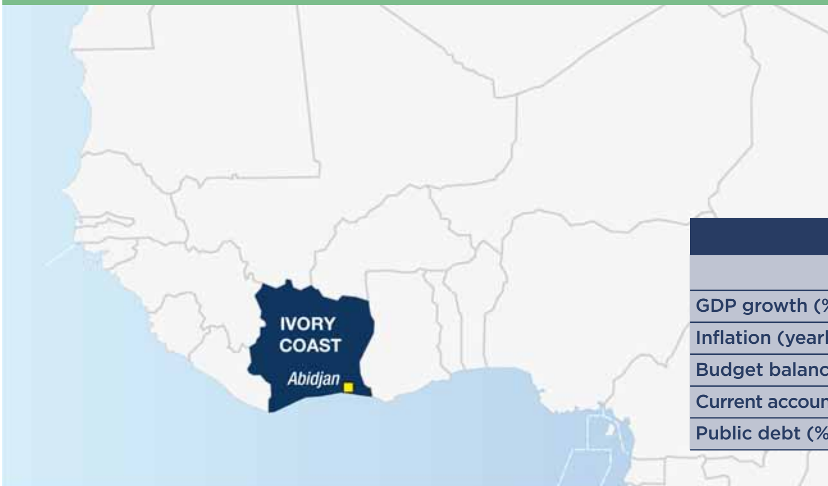
Strengths

- Flexible economy
- Business-friendly environment. favourable tax system
- Presence of multinational companies
- Specialisation in high value-added sectors (including pharmaceuticals and IT services)

Weaknesses

- Dependence on European economy
- Over-indebted households
- Damaged banking sector
- Seriously worsened public finances

Ivory Coast



Coface Assessments

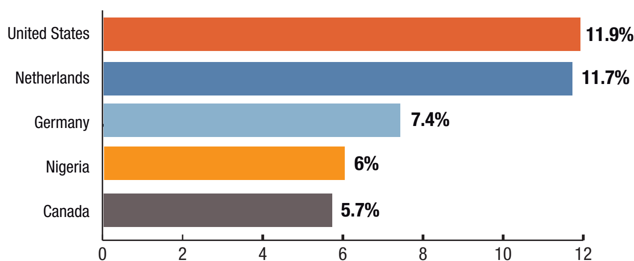
Country risk	D
Business climate	C
Medium term	VERY HIGH RISK

Main economic indicators	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	2.4	-4.7	9.8	8.0
Inflation (yearly average) (%)	1.4	4.9	1.3	3.1
Budget balance (% GDP)	-2.3	-5.7	-3.4	-3.2
Current account balance (% GDP)	2.5	12.9	-1.3	-2.9
Public debt (% GDP)	66.4	71.2	45.6	43.2

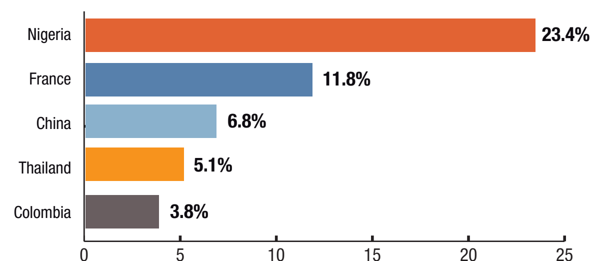
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Greater economic vitality than forecast

The upturn in economic activity in 2012 was more vigorous than forecast, following the 2011 recession resulting from the painful post-electoral crisis (December 2010 - April 2011). In a context of normalisation of the political situation, growth was sustained by public sector investment and a recovery in domestic demand. Major infrastructure projects that have been launched include the renovation of the universities, a restarting of the construction of a bridge and a highway, the rehabilitation and construction of classrooms and health centres. The private sector has also been involved with the construction of another bridge, in the capital, and the development of thermal power plants. The expansion should continue through 2013 at a sustained rate thanks to the increase in public and private investment to which should contribute a better business climate, donor assistance, the return of investor confidence and the promotion of public-private partnerships. An upturn in consumption is also forecast in rural areas, linked mainly to increased producer incomes following the reform of the cocoa sector.

Alongside the recovery there has been a leap in imports, which has led to the re-emergence of a current account deficit, following a number of years of surpluses. Official loans and direct foreign investments have however picked up and capital flights have abated.

There are plenty of reforms still in the planning stage, with the priorities being a restructuring of VAT, the continued improvement in the business environment, the adoption of an electricity code and the drawing up of a medium-term wage strategy. Any economic take off will depend, in the longer term, on the level of investment in education and training, the reduction of social inequalities and improvements in the area of governance.

Public sector accounts have improved and the country has regularised its external debt

Fiscal performance has improved thanks to the recovery in activity, the favourable trend in cocoa prices and the reorganisation of tax services, even though the wage bill has strongly increased and the restructuring of the public sector is lagging behind. In June 2012, the Ivory Coast reached the Heavily Indebted Poor Countries (HIPC) Initiative completion point, paving the way for a further bilateral and multilateral debt relief. The country also normalised its relations with private creditors, having resumed the payment of its 2010 euro-bond coupons. However, the public debt profile is still vulnerable to external shocks (growth, borrowing conditions).

The political situation has returned to normal but the security context remains challenging

There has been very little progress in terms of national reconciliation since the end of the post electoral crisis. Legislative elections, the first in more than a decade, were held in December 2011, from which President Ouattara's party emerged stronger. The former ruling party, however, boycotted them. This was also the case for municipal and regional elections in April 2013, won by independent candidates and, within the coalition, the president's party. In any case, Laurent Gbagbo's party is substantially weakened since the latter was transferred to the International Criminal Court in The Hague and it does not seem to be in a position to compete with the governing coalition. Moreover, the security situation has worsened somewhat since August 2012, with a series of attacks, attributed to pro-Gbagbo forces, against the army, the police and a power station. Violence has continued at the beginning of 2013, with further raids against municipalities close to the border with Liberia.

Strengths

- Agricultural wealth, including cocoa, and diversification into hydrocarbons and ores
- Processing industry and modernisation of port and road infrastructures
- Further debt cancellation in June 2012 under HIPC and MDRI initiatives

Weaknesses

- Fragile security context despite normalisation of the political situation
- Economy dependent on developments in cocoa and oil prices
- Weak investment and governance

Japan

Coface Assessments

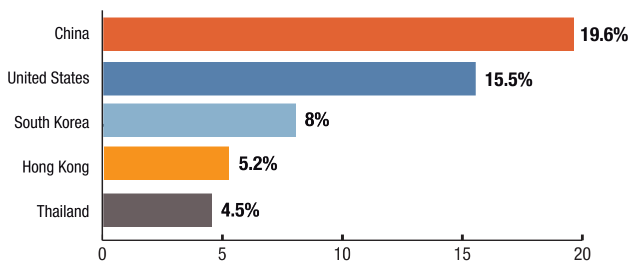
Country risk	A1
Business climate	A1

Main economic indicators	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	4.5	-0.7	2.0	1.4
Inflation (yearly average) (%)	-0.7	-0.3	0.0	0.1
Budget balance (% GDP)	-8.4	-9.3	-9.9	-9.0
Current account balance (% GDP)	3.7	2.0	0.9	0.7
Public debt (% GDP)	192.7	205.3	219.8	232.0

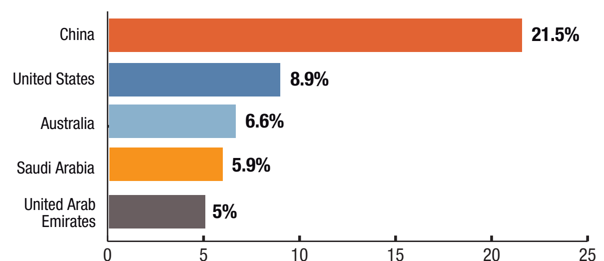
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Expansionist monetary policy has big impact on the economy

In the fight against deflation and the appreciation of the yen, Prime Minister Shinzo Abe acted immediately after coming to office at the end of 2012. The expansionary monetary policy put in place by the Bank of Japan led to a dramatic depreciation of the Japanese currency and drove share prices significantly higher, strengthening the wealth effect for households. As a consequence, they increased their spending in the first quarter of 2013. Investments, however, remain weak. Private consumption is expected to decrease in the coming months, and then increase again towards the end of the year as Japan gets ready for the increase in the consumer tax from 5% to 10% in 2014 and 2015. The fiscal stimulus to boost growth through public investment in infrastructures should also help sustain activity. Private investment however is not likely to see any significant upturn. In this context, the deflationary pressures could ease, which would see the rate return to the positive zone. This trend will be reinforced by the higher prices for energy imported to substitute for energy previously supplied by 52 nuclear power plants. These plants provided for 30% of electricity needs, but have remained closed since the end of 2012. However, the policy of the Abe Government is subject to certain medium-term risks, namely the risk of public finances worsening in the event of a rise in inflation expectations. This could mean an increase in long-term interest rates as well as negative impacts on the financial situations of the banks which hold a large amount of public debt.

Rising exports

The depreciation of the yen since the end of 2012 (22% against the dollar between November 2012 and June 2013) has helped revitalise exports and lead to an improvement in the financial results of major international companies. This depreciation and its beneficial effects on international sales do need to be put into perspective however. It amounts, on a trade-weighted basis, to 15% over the same period. In addition, it has a limited impact on the volume of international sales, bearing in mind the low price elasticity of Japanese exports. Finally, as almost half of the exports are invoiced in dollars, the depreciation of Japan's currency should eventually lead to a reduction in the yen revenues of export companies. Nevertheless, the weaker yen should partly offset the elements that put Japanese exports under pressure in 2012, i.e. the recessions in the peripheral eurozone countries and the weak rate of economic activity in its core countries, with the European Union representing 12% of its sales. Among the uncertainties, those relating to the territorial conflict with China over the Senkaku-Diaoyu islands are worrying, as China accounts for nearly 20% of Japanese exports. Even if we can assume China will gradually lift the boycott on Japanese goods, exports of intermediary industrial products to China (20% of total sales) are likely to continue to suffer from the indirect impact of decelerating European demand for finished Chinese products which incorporate intermediate Japanese goods. Finally, the fiscal adjustment conducted by the United States, could more or less affect sales to the States (16%), depending on the scale of tax rises and spending cuts that will be agreed upon. Subject to an easing of geopolitical tensions with China, exports are expected to rise slightly, but not enough to enable external trade to contribute positively to growth, as imports will remain sustained by purchases of energy to replace the lost nuclear power.

Companies weakened by higher electricity tariffs and slower demand but the favourable exchange rate underpins firms' financial results

The use of imported energy resources has increased production costs in the Archipelago, while the price of electricity was already high by international standards. The decision to authorise an average electricity price increase of 10% since July 2012 has been a weakening factor for businesses, but especially for large consumers like the electric steelmaking arc furnaces. Meanwhile, the slowdown in world demand is likely to continue to affect the mechanical engineering and semi-conductor sectors. Sales of household appliances were hit by the ending of subsidies and printing companies by very tough competition, which squeezed their margins. The largest manufacturers have posted positive results I, the 1st quarter of 2013 thanks to the appreciation of the yen. Banks' activity is under strain with profits eroded by low interest rates, while demand for credit remains subdued. So, in 2013 certain regional banks could undergo difficulties associated with deteriorating solvency among the SME's, whose debt banks have already restructured. Nonetheless, for the moment, the number of company bankruptcies is stable. This is reflected by the Coface payment incident index, which still follows a favourable trend.

Strengths

- Exclusive geographic position in a dynamic region
- Very high national savings level (around 23% of GDP)
- 90% of public debt held by domestic investors
- More favourable yen's exchange rate due to new monetary easing

Weaknesses

- Government instability (seven prime ministers in seven years)
- Worsening public finances
- Decline in economically active population and growing proportion of workers without job security
- Low productivity of SMEs
- Uncertainties over the nuclear question

Philippines

Coface Assessments

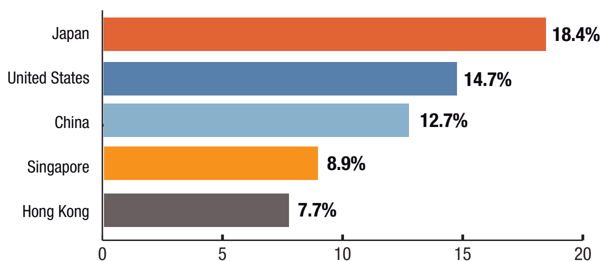
Country risk	A4
Business climate	B
Medium term	MODERATE RISK

Main economic indicators	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	7,6	3,9	6,6	6,5
Inflation (yearly average) (%)	3,8	4,7	3,1	2,8
Budget balance (% GDP)	-3,5	-2,0	-2,3	-1,9
Current account balance (% GDP)	4,5	3,3	3,8	3,5
Public debt (% GDP)	42,2	40,5	40,1	38,7

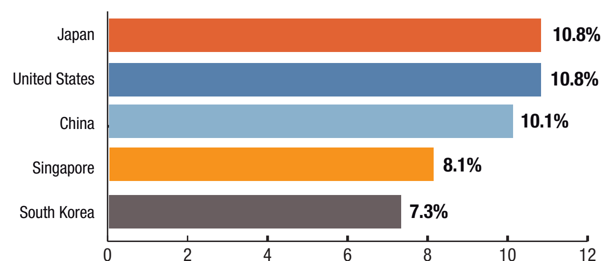
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Growth driven by household consumption

The Philippines achieved sustained growth of 6.6% in 2012, despite weak demand in Europe and the United States. The main driving force for this remained household consumption, accounting for 70% of GDP, and public and private investments. Household consumption will continue at a sustained level under the effects of the rapid expansion in credit as well as remittances from expatriate workers (over 7% of GDP). In terms of supply, the business process outsourcing (BPO) sector has seen very strong growth over the last ten years. This now accounts for approximately 5% of GDP and 25% of exports. The call centre sub-sector here now employs more people than it does in India, which until 2011 was the reference country in this regard. It should also be noted that the construction, financial intermediation and property sectors are experiencing rapid growth.

In the short term, the main risk to activity is a slowdown in global growth as exports represents almost 50% of GDP. The Philippines are especially exposed to the trade channel with over 40% of its exports coming from the electronics sector whose business cycle is very closely linked to that of the advanced economies. In addition the increasing levels of unemployment in those countries to which expatriate Philippine workers have traditionally gone will also impact on household consumption. On top of this, despite progress in terms of investments, notably in infrastructure (with the government setting up 80 public-private partnership based investment projects worth a total of 7.5% of GDP), growth continues to be held back by the poor rate of investment, with the implementation of public investment projects seriously slowed by bureaucratic obstacles.

Inflation is likely to remain under control in 2013. In 2012 the inflation rate is 3.1% as an annual average, with the Central Bank's target range being between 3 and 5%. The consumer price index benefited from a drop in world agricultural prices during the first half. With food prices representing over 50% of the index (of which rice accounts for 10% of the total) inflation is highly dependent on movements in the price of foodstuffs. In this context of weak inflationary pressure and in order to curb the appreciation of the peso, the Central Bank moved to cut rates several times during 2012, so much so that rates are now at historic low. This is one of the factors behind the strong growth in the private sector credit.

The country's financial position remains very solid

Regarding public sector finances, the fiscal deficit in 2012 was 2.3% of GDP and should remain at a moderate level in 2013. Against the backdrop of a small deficit and sustained GDP growth, the sovereign risk has fallen and public debt is expected to continue downwards this year.

The external financial position also remains favourable. It is the remittances from expatriate workers that ensure the strong stability of the Philippines' external accounts. These have proven to be extremely resilient throughout the crisis and helped produce a current account surplus of 3% each year. Exports of services have also been on an upward trend over recent years and this will continue in 2013. The Philippines will therefore continue to record a current account surplus. Given this context, the peso will continue to appreciate at a moderate rate in 2013. Alongside the appreciation of the peso, there has also been a growth in the country's currency reserves, these increased by 8.5 Bn USD in 2012 to reach 84 Bn USD (33.5% of GDP).

Political stability in 2013

Benigno Aquino's (Liberal Party) landslide presidential election victory in 2012 was not hugely contested. This initial popularity and the support of the Philippines elites bode well for relative political stability until the next presidential election in 2016. In addition, the partial results of the mid-term elections, held in May 2013, gave support to the coalition under President Aquino.

During his election campaign in 2010, B. Aquino gained voters confidence by focussing his campaign on achieving better governance and its positive impact on the economy. However, despite this stated desire on the part of the President, corruption persists in the country. There are continuing shortcomings both in terms of compliance with the law and the quality of regulations. One of the President's stated objectives for the year also covers a reduction in poverty and inequality.

Recent improvements can however be seen in terms of internal political stability. In October 2012, the Philippine government reached a peace agreement with the rebel movement that had been calling, for 40 years, for the creation of an independent Islamic state on the island of Mindanao. In geopolitical terms, its relations with China were tense in 2012, with this increased tension arising from territorial conflicts in the mid China Sea. In May 2013 its relations with Taiwan also deteriorated following the death of a Taiwanese fisherman killed by the Philippines Coastguard, and the Philippines does not recognised Taiwan as a legitimate state.

Strengths

- Significant role played by the electronic sector in the economy (over 40% of exports)
- Constant growth in its exports to emerging Asian economies: accounting for over 45% of exports in 2011
- Household consumption and the external accounts benefit from remittances by expatriate workers.
- The business process outsourcing (BPO) sector is thriving

Weaknesses

- Low level of investment, specifically infrastructure
- Governance shortcomings
- Inequalities and demographic growth affect economic performance

Slovenia

Coface Assessments

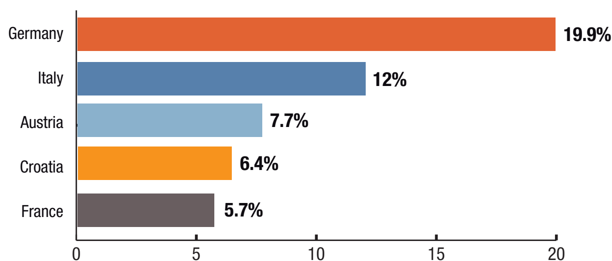
Country risk	A4
Business climate	A2

Main economic indicators	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	1.1	1.0	-2.2	-2.8
Inflation (yearly average) (%)	1.8	1.8	2.3	2.0
Budget balance (% GDP)	-5.3	-5.6	-4.6	-7.8
Current account balance (% GDP)	-0.3	0.1	0.8	1.7
Public debt (% GDP)	38.6	46.9	53.7	70.0

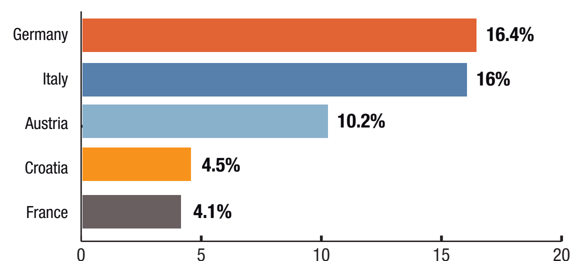
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Stalled growth

Slovenia dipped into recession in the second-half of 2011. The contraction in activity worsened in 2012 and will continue in 2013. Its growth is being hit by the budgetary consolidation measures and by the contraction in European activity. Both investment and household consumption contracted in 2012 (respectively -9% and -3%). Exports were also down (-1%) reflecting the situations in its European partners – Italy accounts for 12% of exports – and the poor health of the automobile sector (32% of exports). The foreign trade balance did however contribute to growth because of the decline in imports associated with weak domestic demand. Growth will remain negative in 2013, with household consumption again impacted by the desire of the State to reduce the public deficit (VAT increased from 20% to 22%). This will take the form of a cut in the number of government employees and further cuts to their wages (-5%). The number of job vacancies is decreasing sharply, a sign of the decline in investment and will further hold back growth in 2013. Unemployment has also risen and reached 12% in 2012 (6% in 2008). Inflation in 2012 increased slightly, mainly as a consequence of the higher taxes on alcohol and tobacco. It should fall back through 2013 with the weakening in domestic demand and the stagnation of raw material prices.

A precarious banking system

Private companies in Slovenia are burdened under a massive level of debt acquired back at the start of the 2000 decade (85% of GDP in 2012). The companies are due to repay their debts in a context of fragile domestic and European economies, which is impinging on their margins. The collapse of the construction sector is a symbol of problems facing the country, this now accounts for no more than 4% of GDP compared with 9% in 2009 and included the bankruptcy of its three leading companies. The banking sector, mainly consisting of public banks, has been undermined by the rise in nonperforming loans (24% of loans for the domestic banks in June 2012) and by the withdrawal of the subsidiaries of foreign banks associated with the Eurozone recession. Foreign banks effectively reduced their exposure by $10 billion - 21% of GDP - in the 3rd quarter 2012. All the banks are also undercapitalised, obliging the State to intervene at regular intervals to support them. The banking system needs restructuring in 2013 with the creation of a defaulting structure that will help relieve the banking system of its delinquent loans and recapitalise the system. The cost for the State in estimated at 11% of GDP. In this context the successful issue of $2.25 billion (5% of GDP) of 10 year treasury bonds in October 2012, whilst there were no takers for the previous issue in April, gave Slovenia a degree of room for budgetary manoeuvre. The country's budgetary position has got much worse since 2008 and the efforts to improve it are coming up against a lack of political consensus on the reforms of the pension system and the labour market. The public debt has thus increased from 23% of GDP in 2008 to almost 70% in 2013. The government is planning on previsING 15 public companies to try and reduce this debt (namely: the Slovene national airline, telecoms, Ljubjana airport and the country's second bank: NKM).

The current account balance has improved significantly, namely because of the decline in imports, the corollary of weak domestic consumption. At the same time however, its external finance requirements remain high because of the weight of debt repayment. Direct foreign investment (2% of GDP) remain flat and will only cover a very small part of the financial requirement. In this context, the external debt, mostly private, will remain high in 2013 at around 120% of GDP. The country's refinancing capacity, even without any exchange rate risk, could be limited by growing mistrust among foreign investors, in the context of the persistent sovereign debt crisis in the Eurozone.

An unstable political environment

Traditionally reputed for its stability, the political environment has deteriorated in the wake of the Eurozone crisis. The presidential elections in December 2012 confirmed the confusion within the population as the defeated former Prime Minister, Borut Pahor (centre-left) was elected President. The austerity measures being implemented led to the disillusion with the political class: the turnout for the election was only 47% and this was two weeks after a mass protest movement was organised on the streets of Ljubljana. The government of M. Jansa was overturned in February 2013, following a vote of no-confidence in Parliament, with strong suspicions of corruption involving the Prime Minister. The new Prime Minister, Alenka Bratusek, leading the centre-left "Slovenia positive" party, is widely acknowledged for her ability to manage the Slovene economy as a former top finance civil servant.

Strengths

- Highest GDP per capita in Central Europe
- Diversified business sectors (automotives, domestic appliances, pharmaceuticals, tourism, financial services)
- Germany is the main trading partner (25% of exports)
- Member of the Eurozone since 2007

Weaknesses

- Economy dependant on world trade, vulnerable to the Eurozone economic context
- Public accounts threatened by ageing of the population
- Increased unemployment following the crisis

South Africa

Coface Assessments

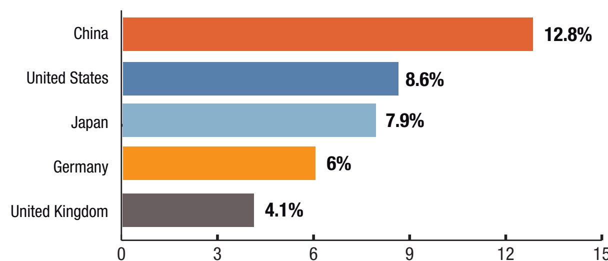
Country risk	A4
Business climate	A3
Medium term	RATHER LOW RISK

Main economic indicators	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	2.9	3.1	2.5	2.5
Inflation (yearly average) (%)	4.3	5.0	5.6	6.0
Budget balance (% GDP)	-4.8	-4.6	-5.2	-5.5
Current account balance (% GDP)	-2.8	-3.3	-6.2	-6.4
Public debt (% GDP)	35.3	38.8	41.2	43.3

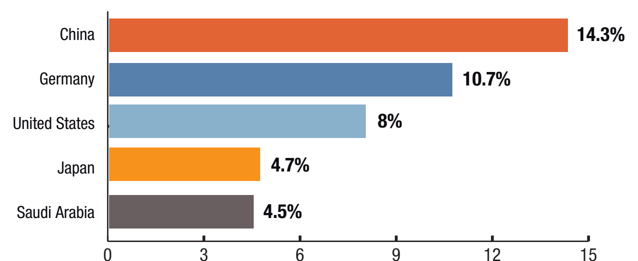
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Slowdown confirmed in 2012 with no recovery foreseen for 2013

There was a sharp slowdown in the South African economy in 2012. The data for the first quarter 2013 showed that any recovery, even slight, is likely to be some way away. The mining and extraction sector (diamonds and manganese), as well as the services, expanded at the beginning of the year whilst manufacturing output shrank significantly (-8% on a quarterly basis). This trend is likely to continue given the outlook for the European economies, the main outlet for South African exports (22% of the total) but also the lack of vigour in its domestic demand. Consumption, the main driving force for growth (66% of GDP), will be held in check by the level households debt (76% of disposable income), inflation and the deterioration in the job market (25% unemployment). There could be further strikes in the industrial sector, already struggling under the burden of rising costs (wages, energy and imported inputs). The public sector companies, TRANSNET (transport) and ESKOM (electricity) will continue their investments in the framework of governmental programmes aimed at improving the infrastructure. Private sector investments however are likely to be suspended.

The high costs of food and energy (petrol and electricity) are keeping inflationary pressures up, worsened by the depreciation of the rand. The weakness in demand should however make it possible to hold inflation within the Central Bank's "target" zone (3% to 6%).

Worsening of the budget and current account deficits will be difficult to avoid

In 2012, the negative impact of the economic slowdown on tax revenues played its part in deepening the budget deficit. The consolidation of public finances as announced for the 2013/14 fiscal year could therefore be hard to achieve. The pre-electoral period (presidential in 2014) and the public investment commitments in the National Development Plan will maintain expenditure at a high level. The increase in some taxes will limit the impact of the weak growth on revenues but is not likely to be enough to prevent a further worsening of the deficit. Whilst the public debt remains under control, the pace of its increase, partly connected with the debt levels of public companies, needs to be watched.

The current account deficit worsened in 2012 and there are no signs that it will improve in 2013. The slowing domestic demand should keep the rise in imports in check, but exports could suffer as a consequence of the weakness in demand in Europe, which could also be felt in the other Asian and African markets that are also trading partners with South Africa. Tourist income and the decline in the repatriation of dividends, now subject to tax, will partly offset the payment for services to foreign companies and the duty drawbacks for members of the Southern African Customs Union (SACU).

Portfolio investments, stimulated in 2012 with the inclusion of South Africa in the City Bank World Global Bond Index, are attracted by the difference in the rate with advanced economies. But this capital is volatile and its inward movement could easily be slowed by doubts on economic, social and political developments in the country, which are already leading to pressure on the rand. The South African currency reached at the beginning of 2013 its lowest level in four years.

Despite the rapid rise in the level of external debt (36% of GDP in 2012 against 28% in 2011), the country's ability to meet its scheduled payments is not, so far, being questioned.

The capitalisation of its banks is satisfactory but the quality of the assets could be impaired with the slowing in activity whilst the supply of credit to households, already heavily indebted, continues to grow.

Increasing social tensions

The election of J. Zuma in 2009 and the promises of the ruling coalition (ANC, Communist Party and Unions) raised hopes. The persistently high levels of unemployment and of inequalities, the disappointing outcome of the BEE (Black Economic Empowerment) initiative, intended to promote access to economic power by historically disadvantaged populations, has led to disappointment and anger. In 2012 there were serious labour disputes at the Marikana mine, with violent confrontations between striking minors and the police, triggering a series of social actions that impacted on the country's economy and weakened the ruling coalition. Further strikes have broken out within the context of the wage negotiations for the mining sector at the beginning of 2013, with a risk of contagion to other sectors. J. Zuma was re-elected at the end of 2012 as President of the ANC. Its new Vice-President, Cyril Ramaphosa, could help increase the level of confidence in business circles. The level of tension could however intensify with the upcoming presidential election in 2014.

South Africa has a well-developed legal system but administrative inefficiency, the shortage of qualified labour, high levels of crime and corruption are undermining the business environment.

Strengths

- Rich in natural resources (gold, platinum, coal, chrome...)
- Well developed services sector (especially financial)
- Control over public spending
- Protective legislative environment for investors

Weaknesses

- Poverty and inequalities - sources of social risk (crime, demonstrations)
- High unemployment and shortage of qualified labour
- Lack of infrastructure (transport, energy)
- Vulnerable to raw materials prices
- Sensitive to European economic situation and to Asian competition
- Dependent on volatile foreign capital inflows

Tunisia

Coface Assessments

Country risk	B
Business climate	A4
Medium term	RATHER LOW RISK

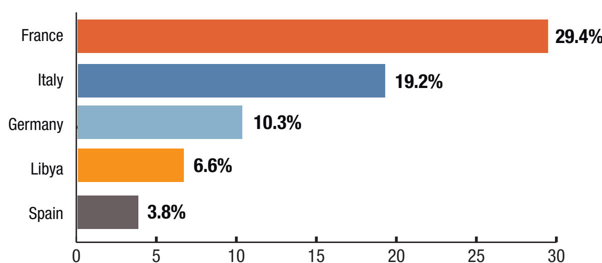
Main economic indicators

	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	3.0	-1.9	3.6	3.4
Inflation (yearly average) (%)	4.4	3.5	5.6	6.0
Budget balance (% GDP)	-2.9	-3.5	-6.5	-6.0
Current account balance (% GDP)	-4.8	-7.4	-8.1	-7.3
Public debt (% GDP)	40.5	44.5	48.0	50.0

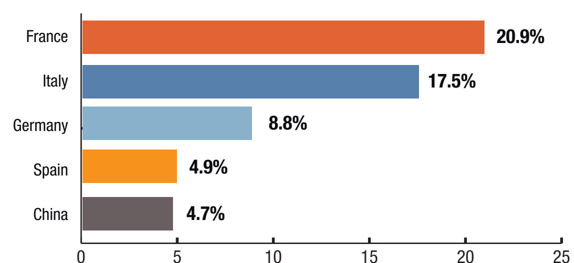
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Increased socio-political tensions, with many social and economic challenges still remaining

The October 2011 elections to the Constituent Assembly have led to a relative majority in favour of the Islamist Conservative Ennahda party. A coalition was formed with two secular parties and a power sharing agreement was passed at the end of 2011. The presidency of the Republic fell to Moncef Marzouki, of the Congress for the Republic and that of the Assembly to Mustapha ben Jafaar, of Ettakatol, while the post of Prime Minister went to the General Secretary of Ennahda, Hamadi Jebali, whose party holds the majority of portfolios. However, following the assassination of a politician leader in the secular opposition at the beginning of February 2013, Ali Larayedh, from Ennahda, formed a new transitional government in March, still dominated by conservative Islamists despite the allocation of four sovereign ministries to independent figures.

These events and the dissension within the political classes are delaying the drafting of the future constitution and the holding of legislative and presidential elections, which have been postponed to the end of 2013. Furthermore, the new government is experiencing the same difficulties as the previous one in terms of implementing a liberal economic programme. Confronted with a radical and violent Islamist movement, the government continues to face multiple social and economic challenges, as well as the expectations of the population in this regard. The major issues are still the creation of jobs and a better social and geographical distribution of growth, with the development of the country's interior, which is underprivileged in relation to the coastal regions.

Slight upturn in growth expected in 2013

GDP growth in 2013 is expected to be slightly down compared with 2012. In terms of supply, a drop in agricultural production is forecast, particularly grains, due to insufficient rainfall. Industrial and mining productions continue to suffer from an unfavourable social climate (the number of strikes was up during the first half of 2013 compared to 2012) and the sluggish environment in the European Union (EU), which is the country's main economic and trade partner. Moreover, tourism income dropped during the first four months of 2013. On the other hand, demand in the private sector should continue to recover, offsetting the gradual decline in public sector demand.

However, these forecasts could be compromised by increasing socio-political tensions until the completion of the political transition process.

Ongoing large twin deficits, alleviated by international financial aid

The budget deficit could be slightly reduced in 2013, although fiscal slippages for electoral purposes (with impending general elections) cannot be ruled out. Public debt – already above the average for comparable emerging countries, as a ratio of GDP – is gradually increasing, but it is mostly contracted on concessional terms.

The external accounts will remain under pressure. Exports are likely to make modest progress primarily due to the unfavourable economic situation in the EU, the country's main trading partner, while imports are still suffering from high energy costs (making up 15% of the total). Meanwhile, expatriate remittances are likely to show some resilience but tourism could be hit by the political situation. Overall, the current deficit is likely to remain high.

2013 is likely to be marked by further worsening in the external debt ratios. However, since the 2011 G8 summit, Tunisia has received financial support from bi and multilateral institutions to cover its public and external deficits. Loans from the World Bank and the African Development Bank, put in place for this purpose, are likely to be rolled over, as well as those from the EIB and the AFD. Moreover, a stand-by agreement of $1.75 billion was completed with the IMF in June 2013. The authorities are also turning to Islamic funds and banks. The slight downturn in the current deficit expected in 2013, combined with significant amounts of financial aid from the international community, should generate an improvement in foreign exchange reserves, the level of which in months of imports will, however, remain well below other countries in the region as well as the average of emerging countries.

Weaknesses in the banking sector and the business environment

Bank solvency, asset quality and profitability, already poor even before 2011, have worsened since then. The risks linked to banking sector weaknesses could, then, undermine macroeconomic stability.

Due to the relatively recent fall of the former regime and the resulting instability since then, the business environment is problematic, but improvements to the law on bankruptcy and the investment code are foreseen. Meanwhile, Coface has recorded an increase in payment incidents and a lengthening of debt collection.

Strengths

- Natural resources (gas, phosphates), agricultural resources and tourism
- Relatively diversified economy and fairly skilled labour force
- Proximity to European market and association agreement with the EU
- Gradual upgrading of infrastructures, industry and financial sector

Weaknesses

- Great social and geographic inequalities
- High unemployment, mainly among the young and especially university graduates
- Economic importance of agriculture
- Tourism sector facing increased competition and political uncertainties
- Significant fault lines dividing society between Islamists and secularists, as well as between tradition and modernity.
- Scale of informal economy (around 40% of GDP) and business climate in need of improvement

Turkey

Coface Assessments

Country risk	A4
Business climate	A4
Medium term	MODERATE RISK

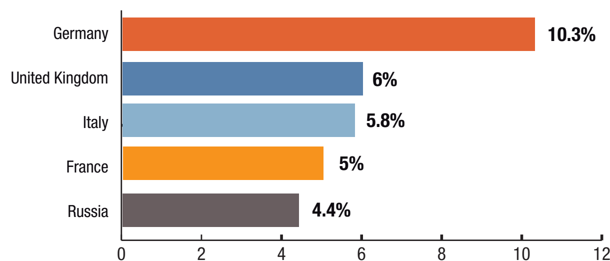
Main economic indicators

	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	9.2	8.5	2.2	3.2
Inflation (yearly average) (%)	8.6	6.5	8.9	6.7
Budget balance (% GDP)	-2.7	-0.2	-1.5	-2.2
Current account balance (% GDP)	-6.4	-10.0	-6.0	-6.7
Public debt (% GDP)	42.4	39.3	36.4	35.9

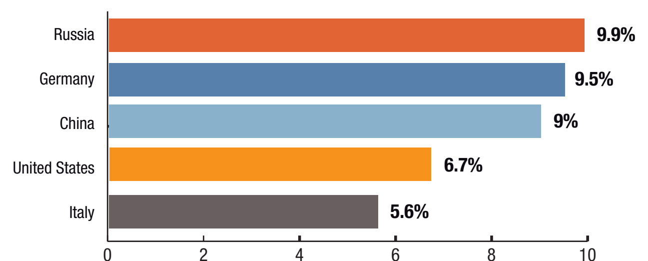
(e): Estimate (f): Forecast

Trade exchanges

Exports of goods, as a % of total



Imports of goods, as a % of total



Risk assessment

Slight upturn in growth in 2013

Activity slowed significantly in 2012. In terms of domestic demand (-1.8%), the Central Bank's restrictive monetary policy aimed at slowing inflation and the rapid expansion of private sector credit, had an impact on household consumption and on company investments. However, in response to this weak growth, the Central Bank started to relax monetary policy at the end of 2012. This trend will continue in 2013. The Central Bank, in a context of slowing inflation, has reduced its policy interest rate twice by 100 bp since January. Even if credit growth eases off slightly in 2013, investment, the main engine of Turkey's economy in 2010 and 2011, will not manage to drive growth beyond its potential (4-5%). In terms of the food and beverages industry, this will perform well in 2013. The quality of production should continue to stimulate investment. The increased supply of credit should also help to increase household consumption. Unemployment however increased slightly in 2012 and should remain at 9% of the economically active population (9.2% in February 2013).

In terms of external demand, exports made a significant contribution to growth in 2012 (+17.1%), despite having suffered with the Eurozone recession (30% of exports). The European crisis has effectively been offset by increased demand for gold from Iran (+400% against 2011 and 15% of total exports). These gold sales are the corollary for imports of Iranian gas (18% of energy needs) which means that Turkey is not wholly dependent on Russia in this regard. The energy trade deficit represents an average of 4% of GDP. These unconventional trades, combined with the dip in domestic demand, helped bring the trade deficit down in 2012. The current account deficit nevertheless remains structurally high and will rise in the second-half of 2013. Exports will struggle again because of the recession in the Eurozone. Some sectors, such as automobile and metallurgy (steel), are thus likely to continue to suffer. On top of this exports to Iran could fall following the legislation voted in by the US Senate in November 2012 targeting these.

Volatility of external finance needs to be watched

Turkey has a reliance on volatile capital: portfolio investments, short-term external loans and non-resident deposits. The continuation of the European crisis could bring an end to these sources of finance. Turkey will, in 2013, continue to benefit from a reduced global aversion for risk among investors because of the more generous monetary conditions granted by the ECB and the US Federal Reserve. The country also has a sound level of foreign reserves (approximately 115 billion dollars, equal to 4 months of imports) that should enable it to intervene in the currency market to support the lira.

The public sector debt worsened following the reduction in revenue as a result of the slowing of the economy in 2012. The public finances are subject to the three-year governmental medium long-term plan (MTP). The plan, for the period 2013 - 2015, expects the public deficit to amount to 2.2% of GDP in 2013, with the aim of gradually reducing this to 1.8% in 2015. The government intends to boost its revenues by increasing taxes paid by motorists, and by raising alcohol and tobacco prices. A third measure includes the ending of tax exemptions for investment companies.

The Turkish banking system is well capitalised. The rate of bank penetration has increased strongly in recent years, a sign of the growing trust among the people in the Turkish economy and the banking system. However, whilst the banks are not directly exposed to currency risks, because of their off balance sheet operations (currency and rate swaps), the euro dollarization of the financial system remains an important constraint.

High risk of social unrest weighs on the economy

On 29 May 2013, a demonstration against the closure of a park in central Istanbul was violently dealt with by the local police. A wave of national protest movements targeted at Prime Minister Erdogan (AKP) then broke out. The heterogeneous nature of the demonstrators (extreme left, Kemalists, AKP supporters disappointed by the actions of the Prime Minister) mean that it is possible that this protest movement could spread. The target is less the economic record of Mr Erdogan since 2002, but his recent pronouncements and his methods (pressure on the media, justice and the imprisoning of former high ranking military staff), which have become more radical since his 3rd electoral mandate in 2011. In addition, as he cannot seek a 4th term of office as head of the government, he is aiming for the Head of State. The presidential elections in August 2014 will also be the first to be held under direct universal suffrage. The ratification of a new constitution in 2013 could allow the granting of executive powers to the President whose role is currently an honorary one. Given the current level of social instability in Turkey, it is possible that the President, Abdullah Gül, despite being a member of the AKP, could stand against the Prime Minister. There has been no major opposition party in Turkey since 2002.

Turkey is well integrated into the international community. Given the ambiguity of the Europeans, the Cyprus veto and the Armenian question, the likelihood of EU membership is remote. The country is therefore turning increasingly toward the Middle-East. Nethertheless the country is now in open crisis with Syria whilst tensions with the Kurd minority remain high.

Strengths

- Dynamic private sector and highly skilled workforce.
- Pivotal regional position of country increases attractiveness of Turkish market
- Demographic vitality
- Public finances under control
- Healthy and resilient banking sector

Weaknesses

- Insufficient domestic savings
- High dependence on foreign capital
- Increased external indebtedness of companies raises their exposure to currency risk
- The Kurdish issue remains a source of social and political instability
- Little likelihood of progress in negotiations with EU notably because of the Cyprus issue