



COFACE

2023 COUNTRY RISK

CONFERENCE

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GLOBAL ECONOMIC OUTLOOK: FROM EXCESSIVE PESSIMISM TO EXCESSIVE OPTIMISM

JEAN-CHRISTOPHE CAFFET

GROUP CHIEF ECONOMIST, COFACE

KEY TAKEAWAYS

GLOBAL ECONOMY: MORE RESILIENT THAN IT SEEMED, SO FAR

- › Global GDP growth ultimately halved in 2022 (+3.1%, after +6.1% in 2021).
- › Cyclical coupling in the three main engine of global GDP growth (US, China, EU), with the EU avoiding a deep recession owed to (very) favourable weather conditions during autumn & winter.
- › Inflation to keep decreasing in the short term, but to remain sticky in most advanced economies (core inflation > 4% end 2023).
- › Falling inflation, China's comeback and USD (slight) depreciation to give some fresh air to emerging countries.

→ **Global GDP growth to further slow down + sticky inflation : stagflation to remain on the agenda for 2023 (at least).**

IF THE WORST HAS NOT HAPPENED, THE BEST IS NOT CERTAIN EITHER

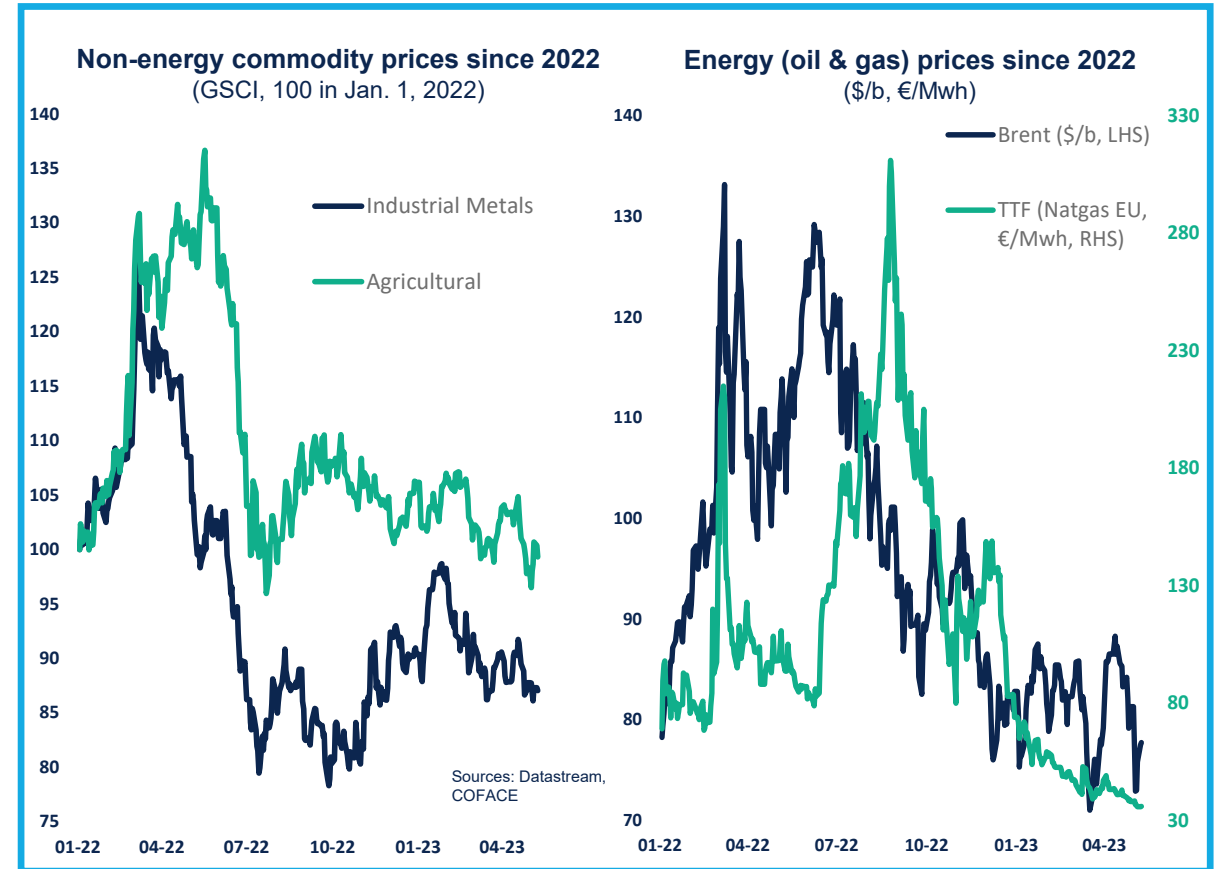
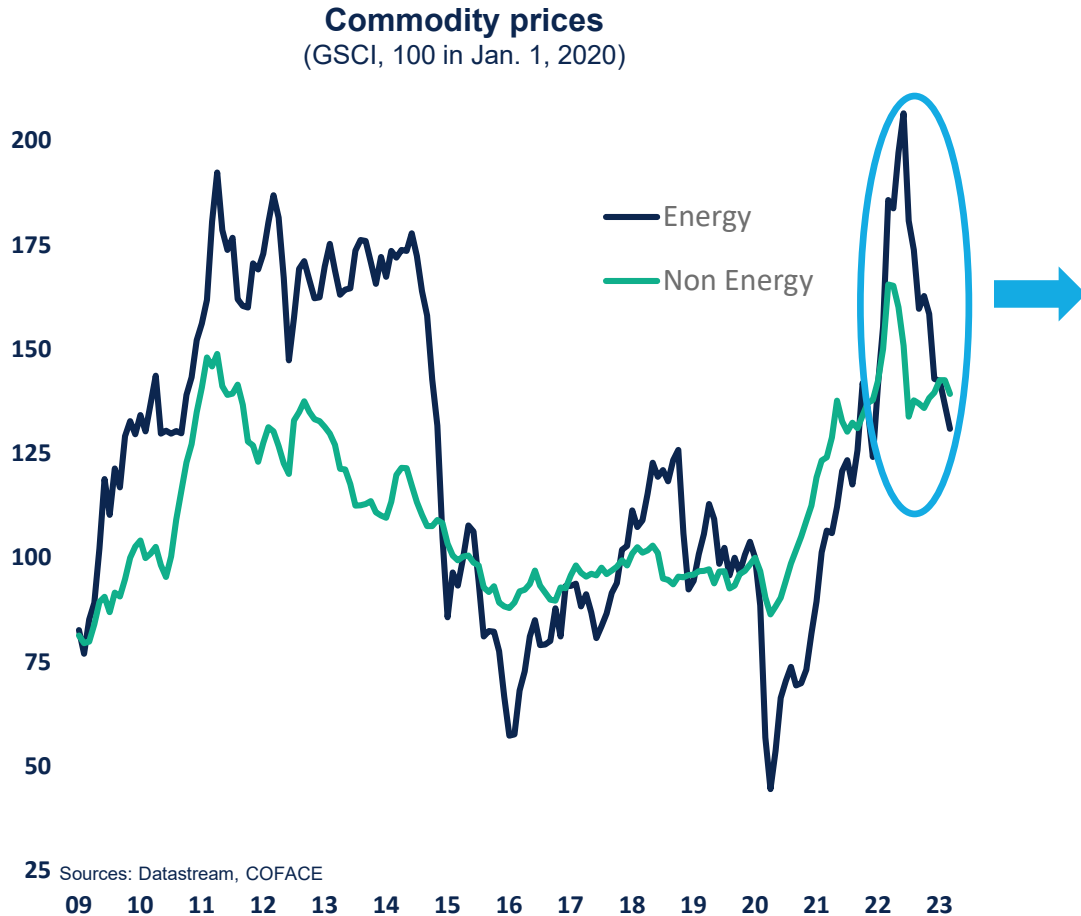
- › Macro impact of central banks' rate hikes still to be seen (transmission lags).
- › Too early to say whether the current financial turmoil is/isn't the harbinger of something more serious.
- › The energy crisis is not over : winter 2024 (and followings) will also be coming, while energy markets remain (structurally) tight.
- › Inflation does not belong to the past, nor does monetary & financial tightening.

→ **A strong China-driven rebound in 2H23 coupled with ongoing disinflation in advanced economies seems highly unlikely.**

AROUND THE WORLD IN A NUTSHELL

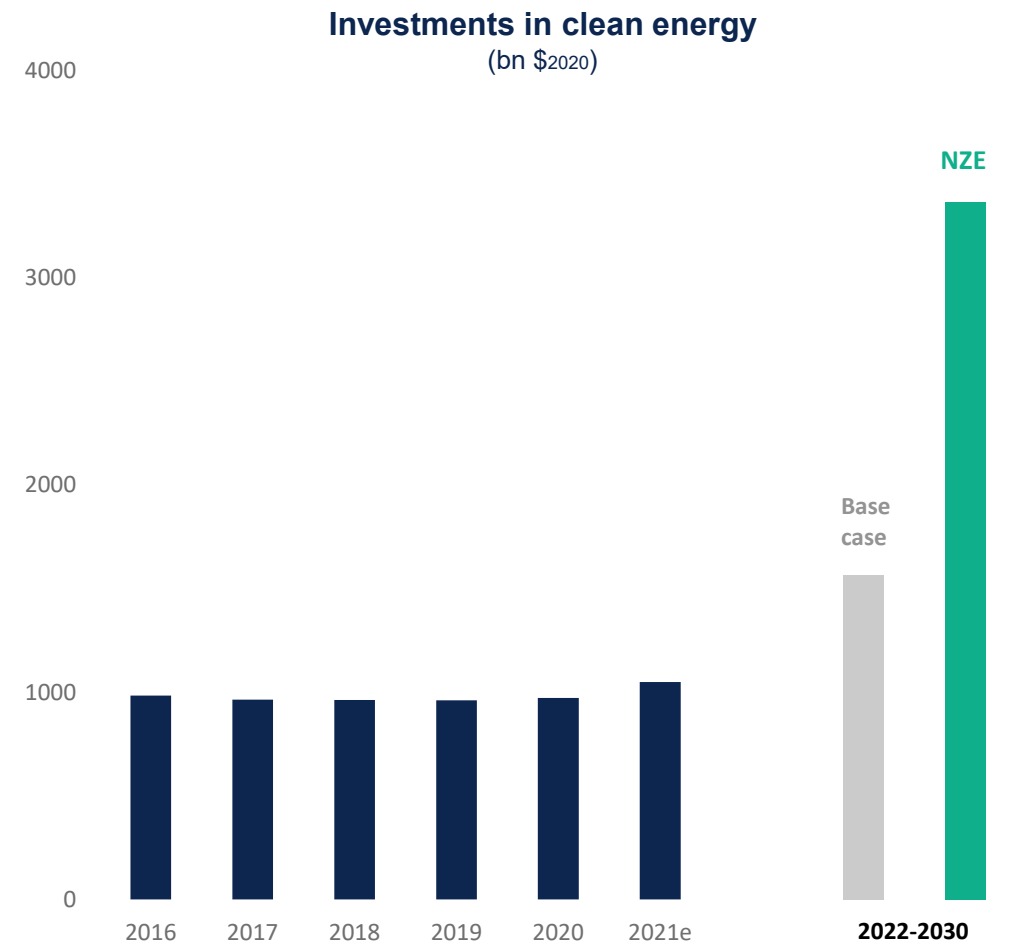
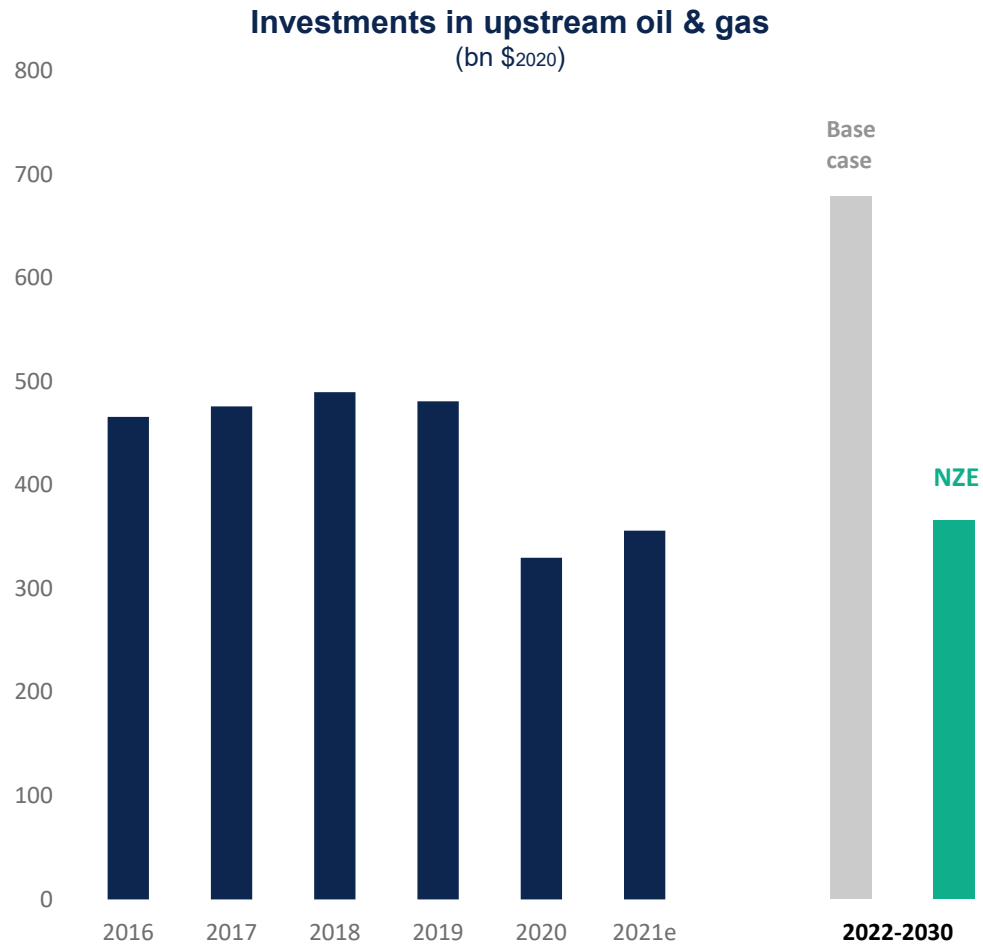
- › **US** : The war chest accumulated during the pandemic and the labor market resilience should allow to absorb the monetary shock. Unless...
- › **Europe** : The worst has (temporarily?) been avoided. Troubled times ahead.
- › **China** : The removal of health restrictions (zero-covid) paves the way for a strong rebound in 2H23.
- › **South East Asia** : Still resilient and at the forefront to take advantage of China's comeback.
- › **India** : Finally delivering on its promises?
- › **Turkey** : Still penalized by its self-inflicted inflation drama. Watch out general elections in May.
- › **Brazil** : Slowdown ahead. Some (China-related) upside risks.
- › **Russia** : Getting into the hard stuff.

COMMODITY PRICES: SOME RELIEF (IN THE SHORT TERM)



CONCERNS ABOUT DEMAND NOW OUTWEIGHING SUPPLY FEARS

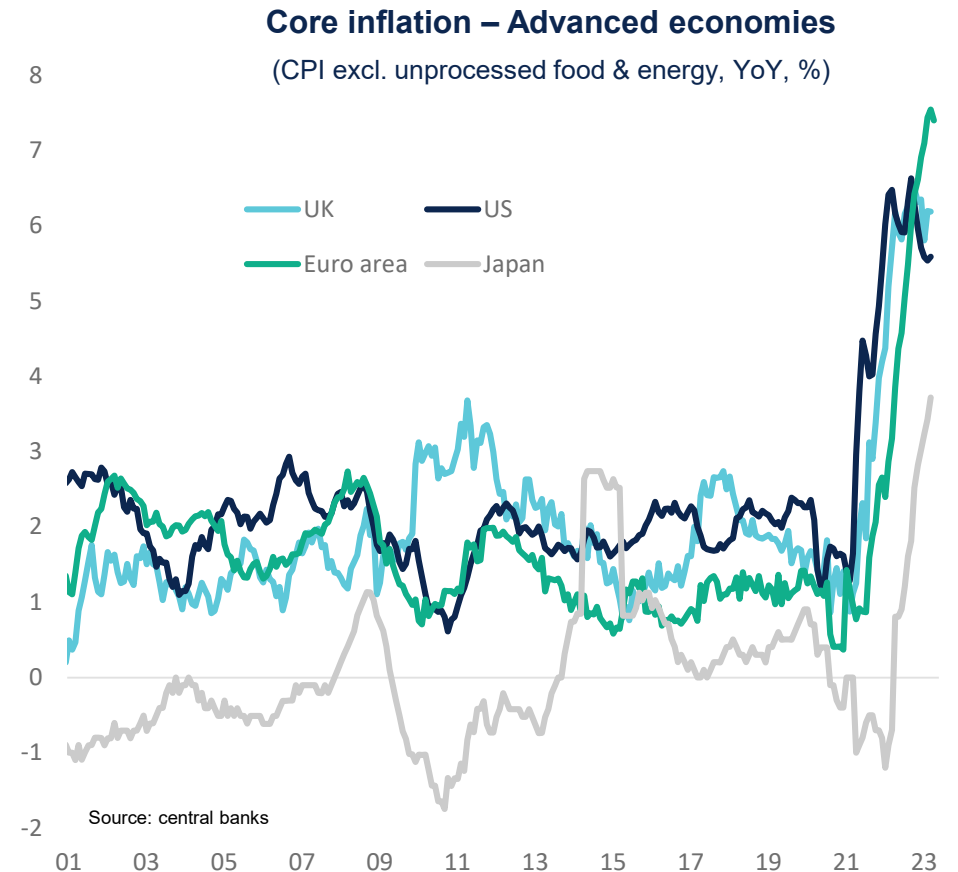
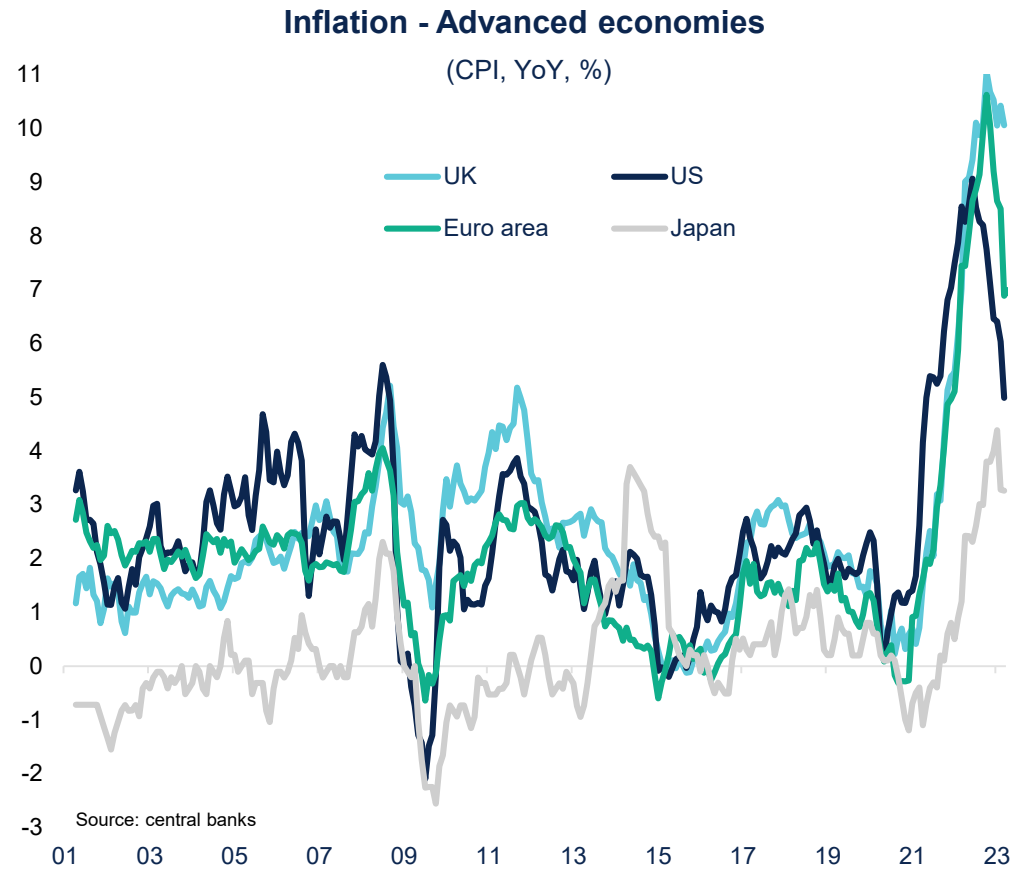
THE ENERGY CRISIS IS NOT BEHIND US



Sources: IEA, COFACE

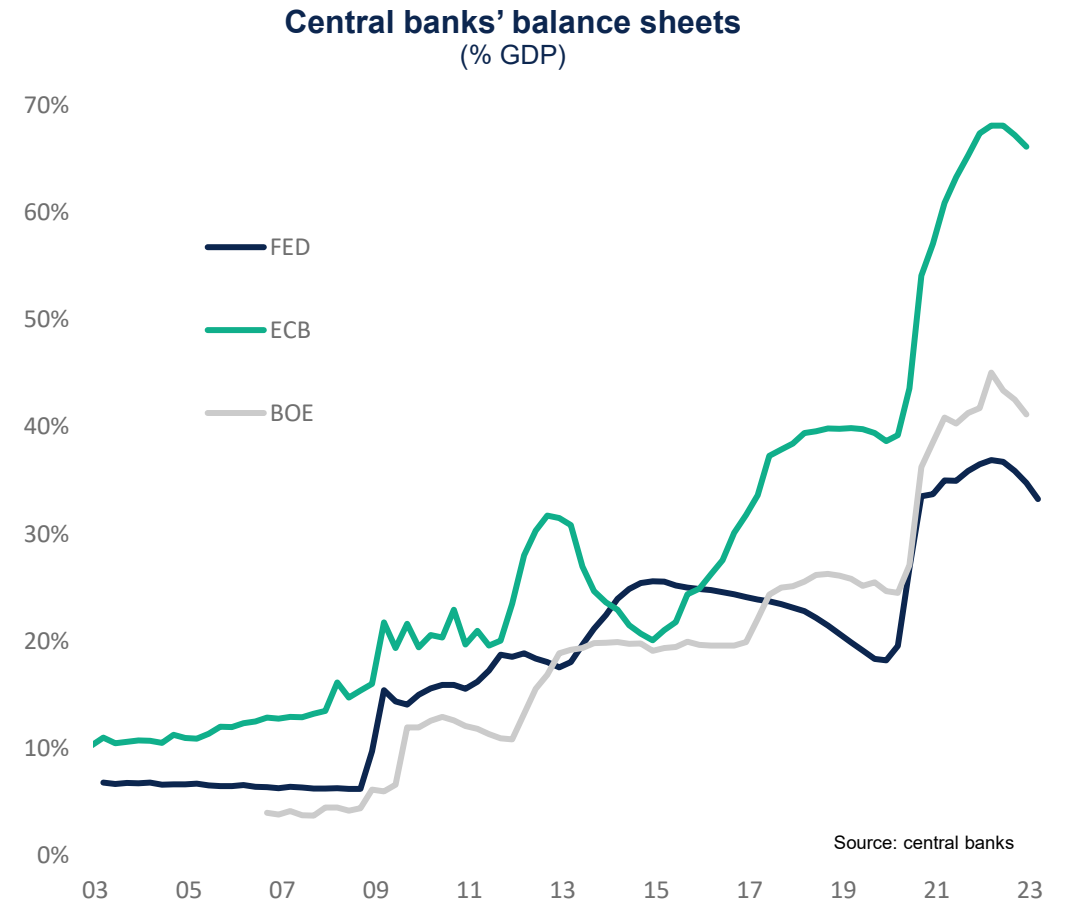
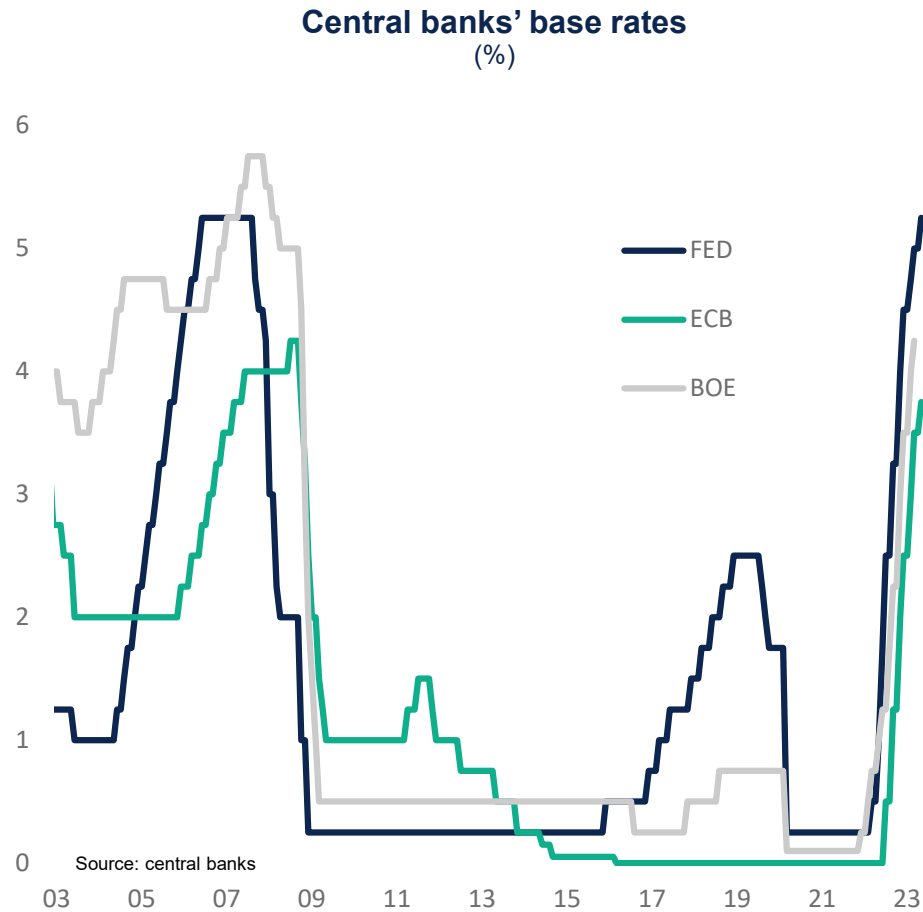
GLOBAL ENERGY INVESTMENT FAR BELOW WHAT IS NEEDED, IN ALL SCENARIOS

INFLATION : THE PEAK HAS BEEN CROSSED



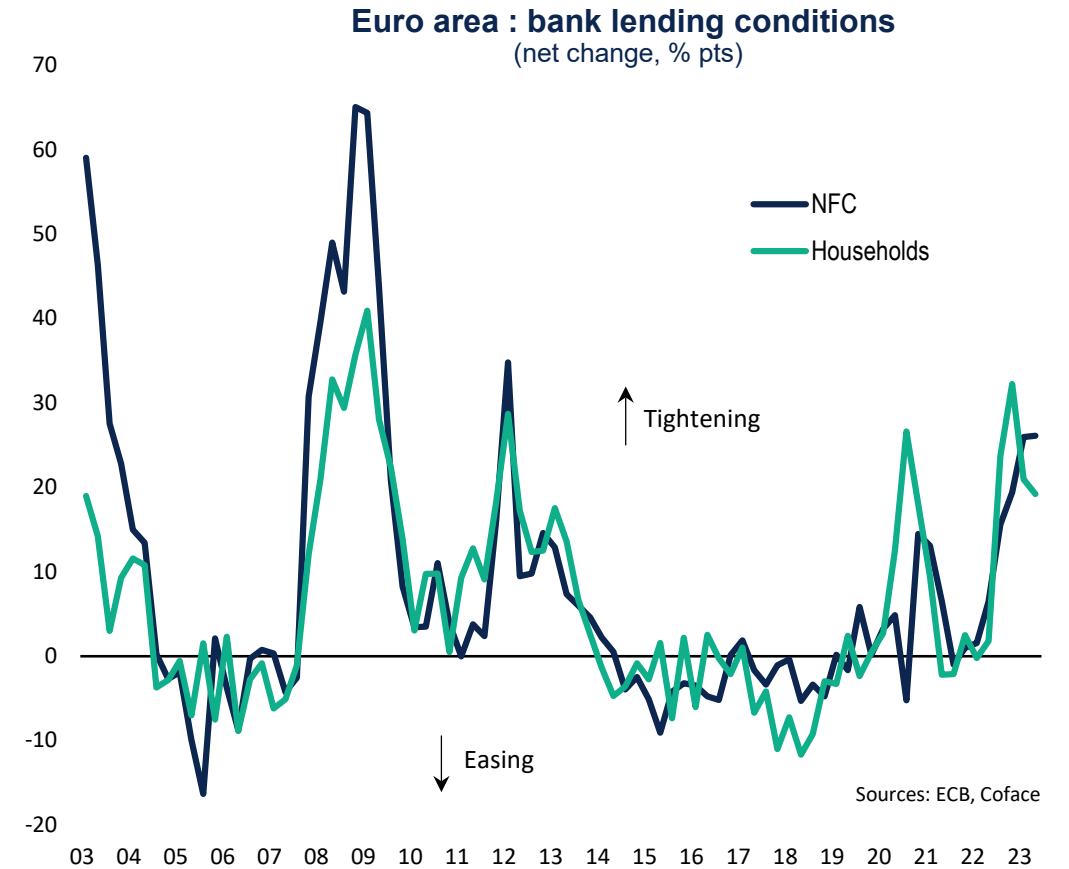
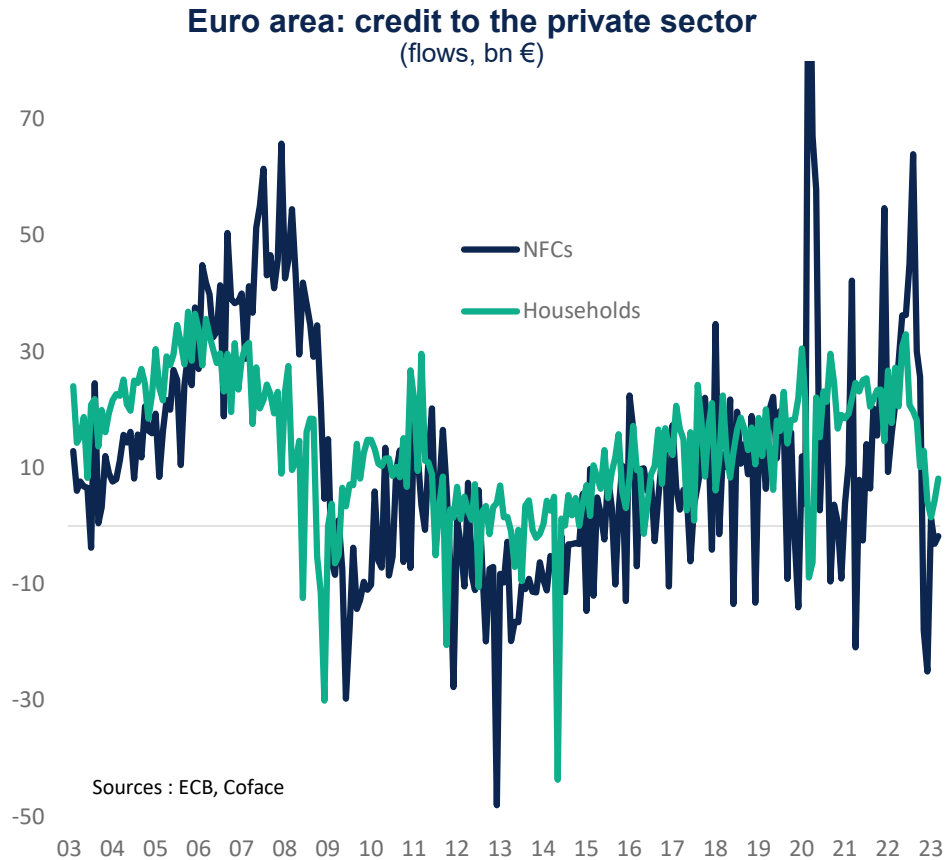
**INFLATION IS GOING DOWN ALMOST EVERYWHERE
BUT IT HAS BECOME MORE AND MORE ENTRENCHED IN ADVANCED ECONOMIES**

MONETARY TIGHTENING : FAST & FURIOUS



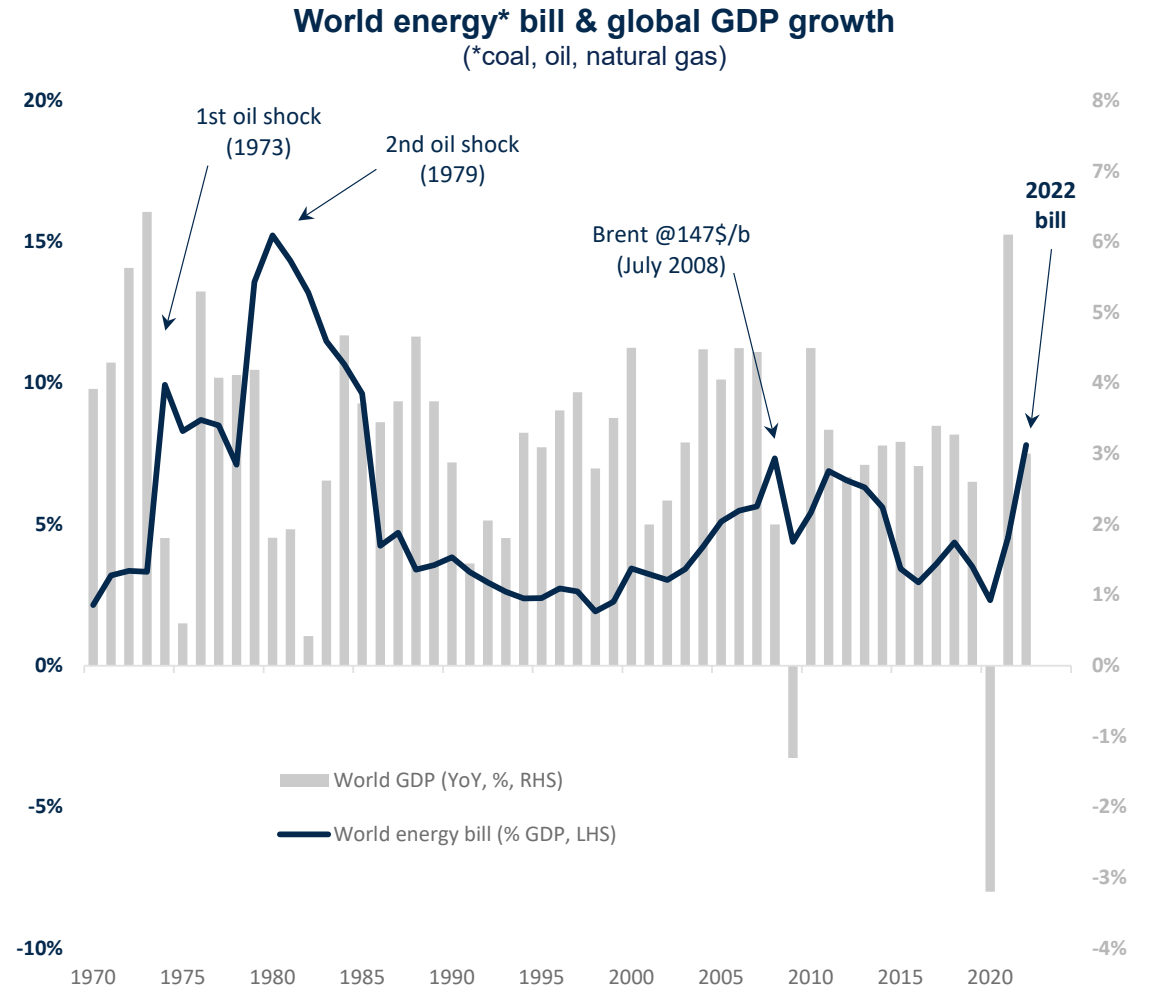
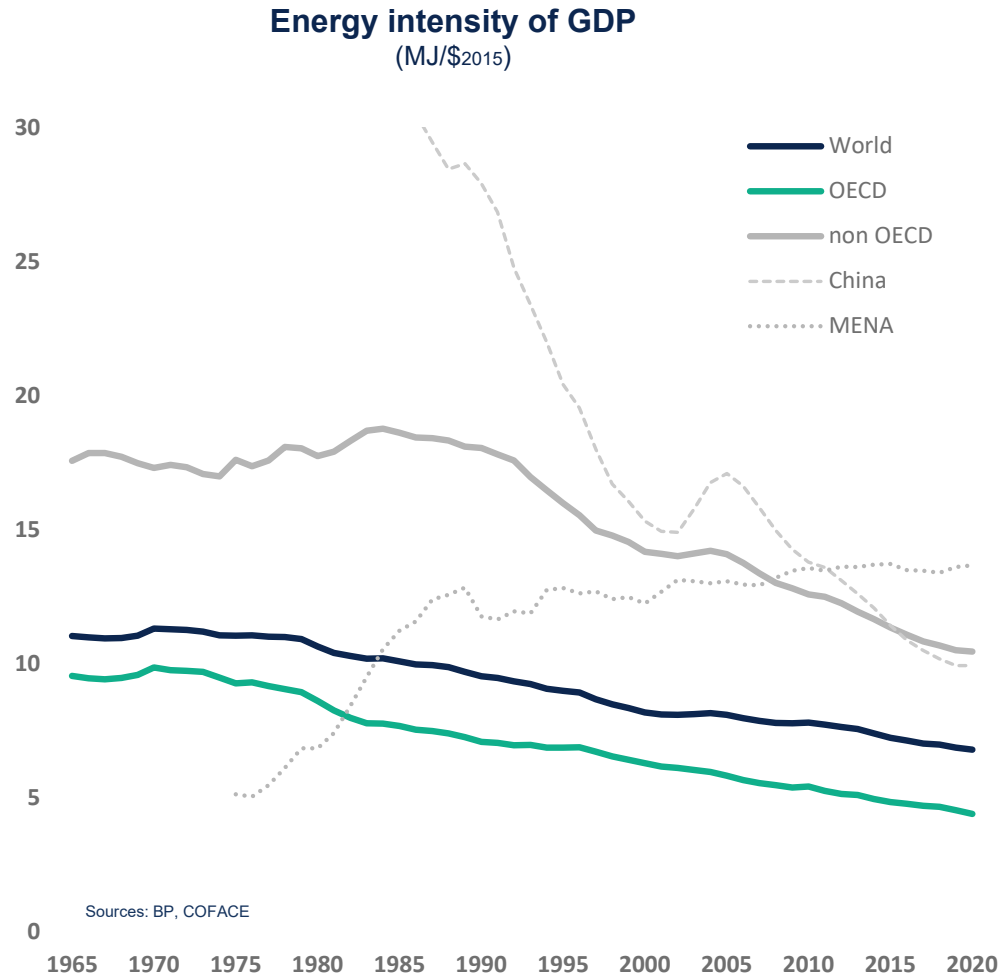
EASY MONEY: THE GAME IS OVER

CREDIT CRUNCH AHEAD? THE CASE OF THE EURO AREA



**CREDIT FLOWS ALREADY DOWN BEFORE THE SHOCK
SIGNIFICANT TIGHTENING OF BANK LENDING CONDITIONS AHEAD**

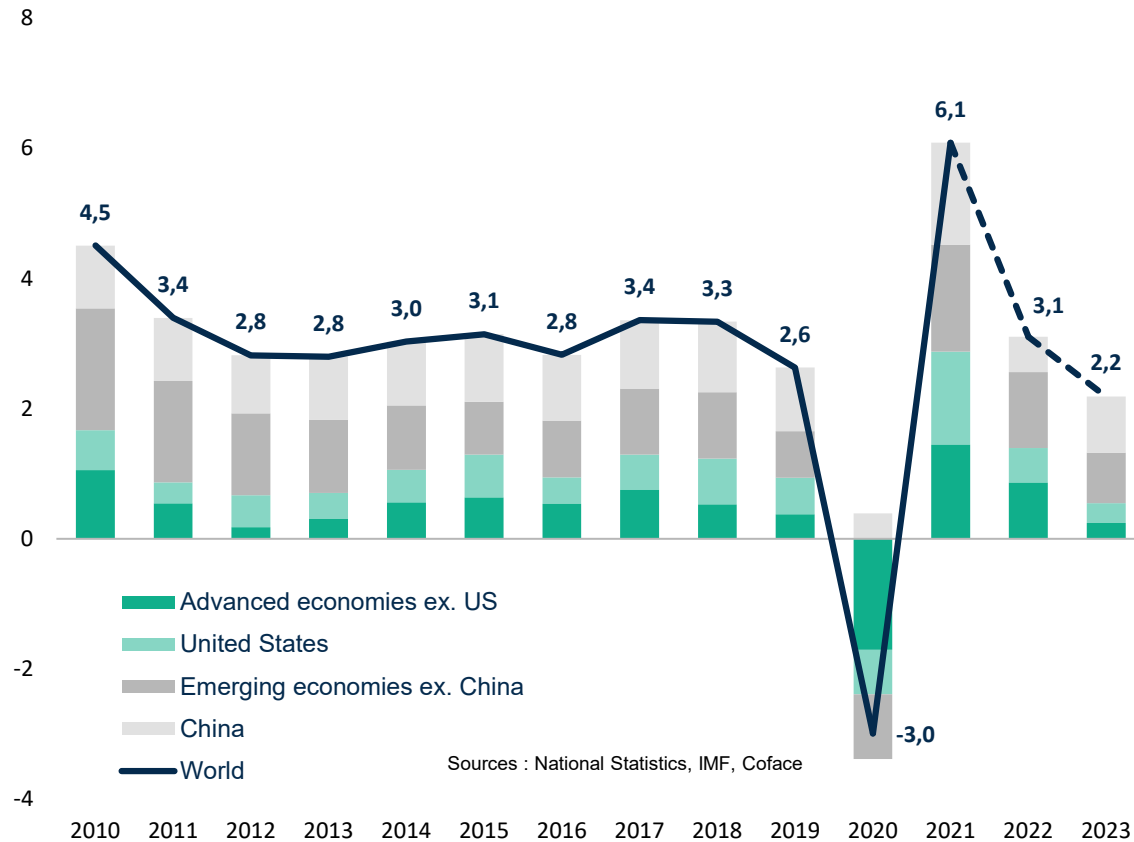
A GLOBAL RECESSION IS ANYTHING BUT UNLIKELY



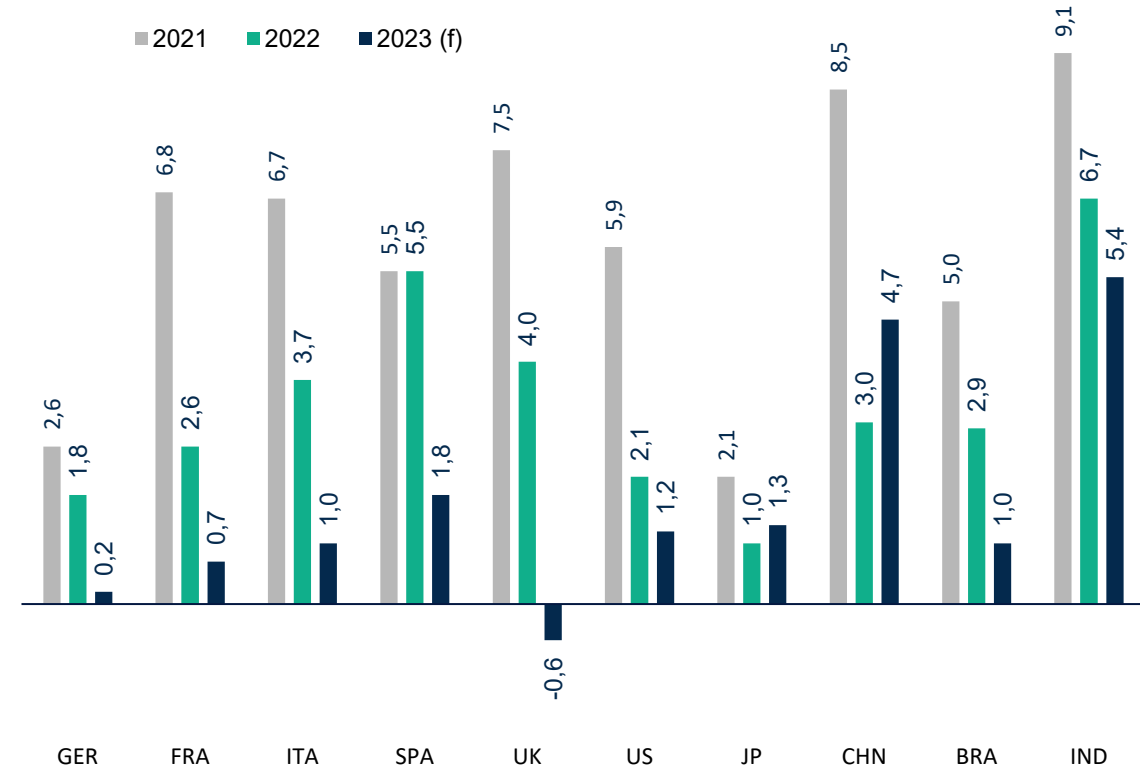
DESPITE HUGE (AND ONGOING) ENERGY EFFICIENCY GAINS, ENERGY PRICES ALONE COULD TRIGGER A LAGGED BUT SHARPER ECONOMIC DOWNTURN

CENTRAL SCENARIO : GDP GROWTH FORECASTS

Global real GDP growth & regional contributions
(market exchange rates, yoy, %)

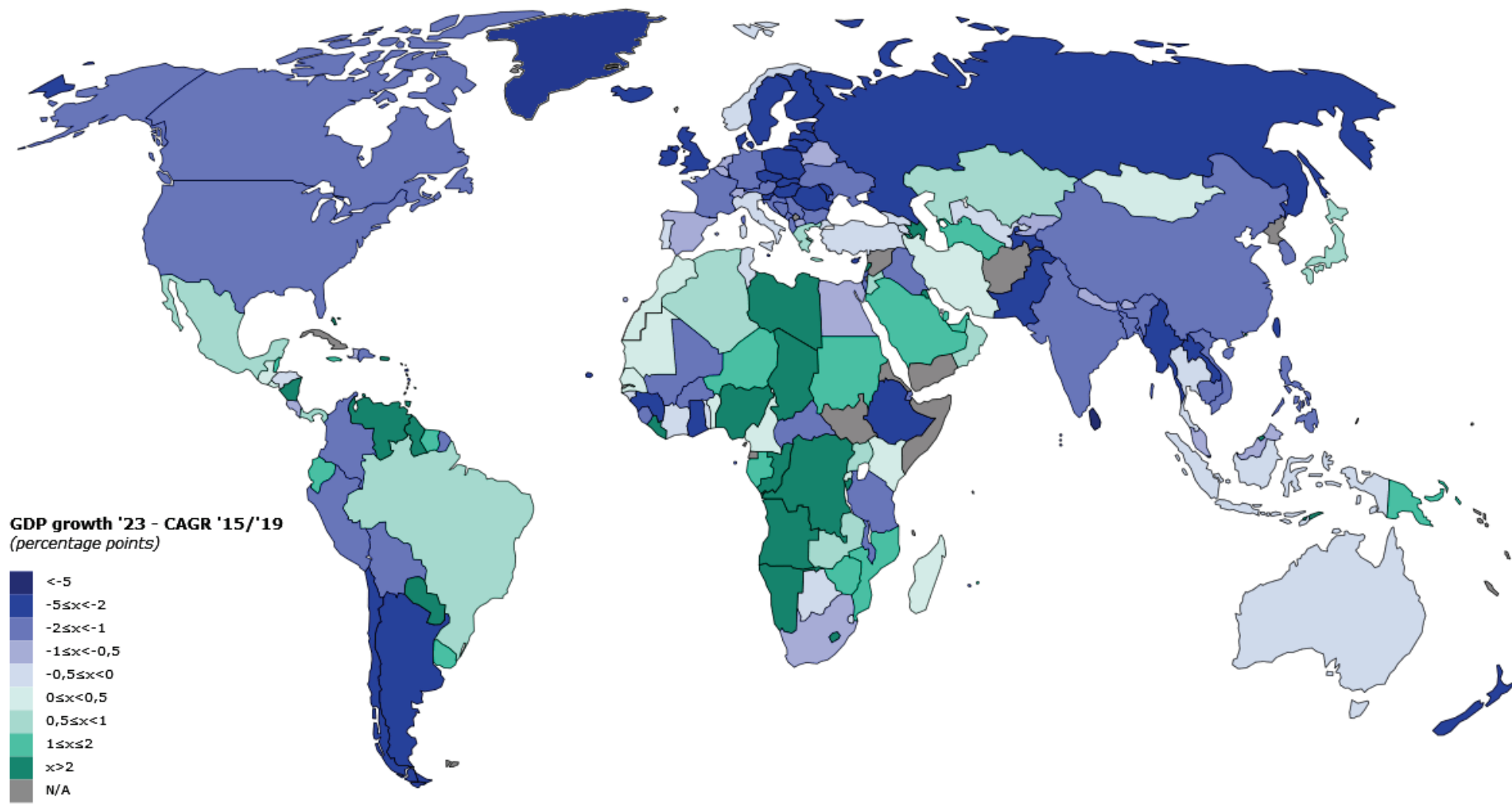


Real GDP growth in major economies
(%)



**SLOWDOWN (ALMOST) EVERYWHERE
SUB-PAR GROWTH IN (WESTERN) ADVANCED ECONOMIES**

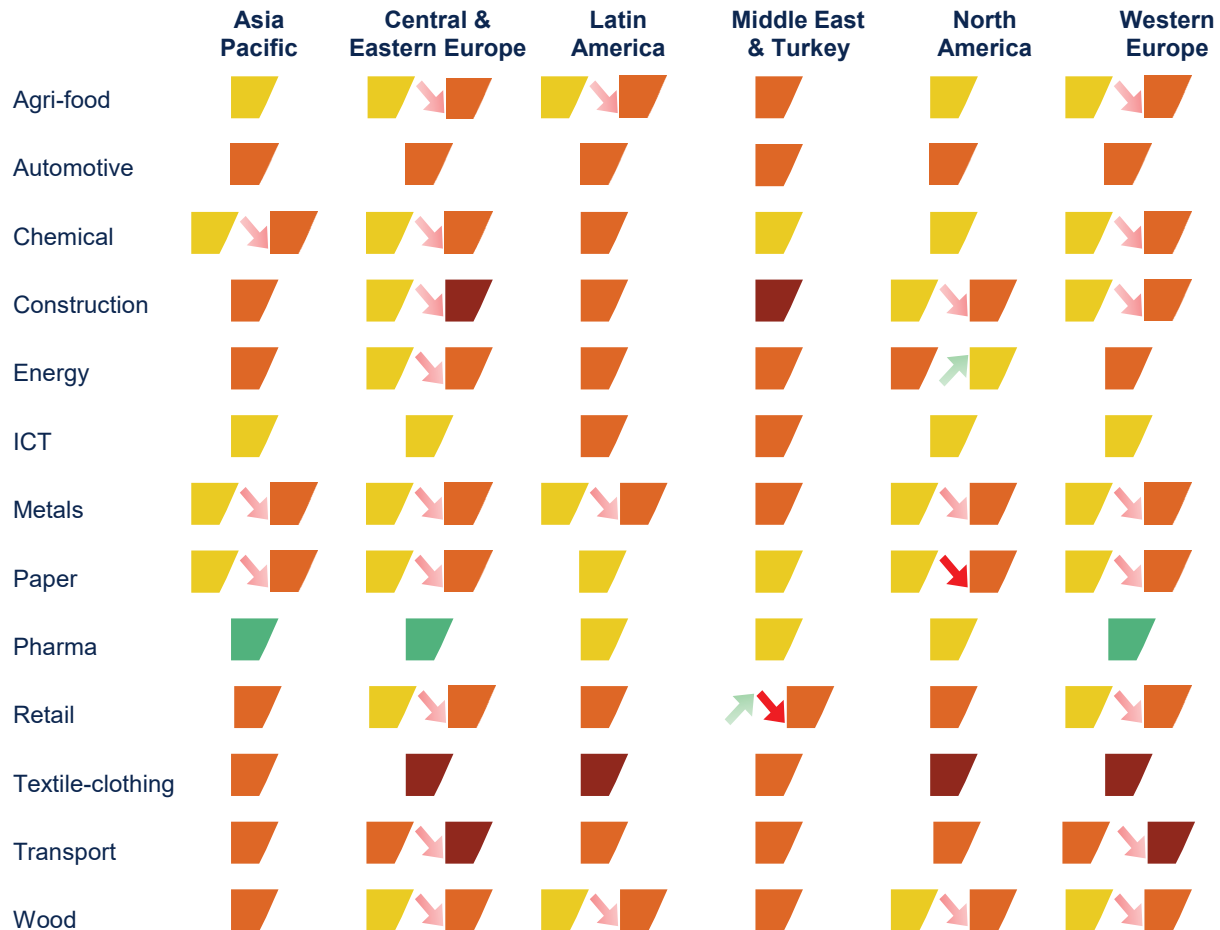
GDP GROWTH IN 2023 (WELL) BELOW TREND IN MOST COUNTRIES



REGIONAL SECTOR RISK ASSESSMENTS – Q4 2022

Coface sector risk assessment by region

Q2 & Q3 2022 (shaded arrows) and Q4 2022 (plain arrows)



- > **~135 country-sectors downgraded** since the beginning of the war (75 in 2Q, 50 in 3Q) vs ~15 upgrades only
- > **Sector risk assessment** in a given country depending on the **positioning** of the country's companies **in the value chain** (e.g. agri-food)
- > **Energy intensive and cyclical sectors are most at risk** (e.g. Petrochemicals, Metals, Paper...)
- > **Construction sector strongly impacted** by input costs inflation (cement, steel...) and rising interest rates
- > Highly innovative and **non-cyclical sectors remain resilient** (e.g. Pharma, ICT), while losing momentum (some downgrades in several countries in Q4 2022)



WHAT DOES ALL THAT MEAN FOR **CORPORATE INSOLVENCIES?**

Withdrawal of government support measures to businesses
(both pandemic and energy-crisis related)

+

Businesses **cash position** already **affected** by the **rise in input costs**

+

Higher corporate indebtedness & bank lending tightening
(stricter credit requirements & higher interest rates)

+

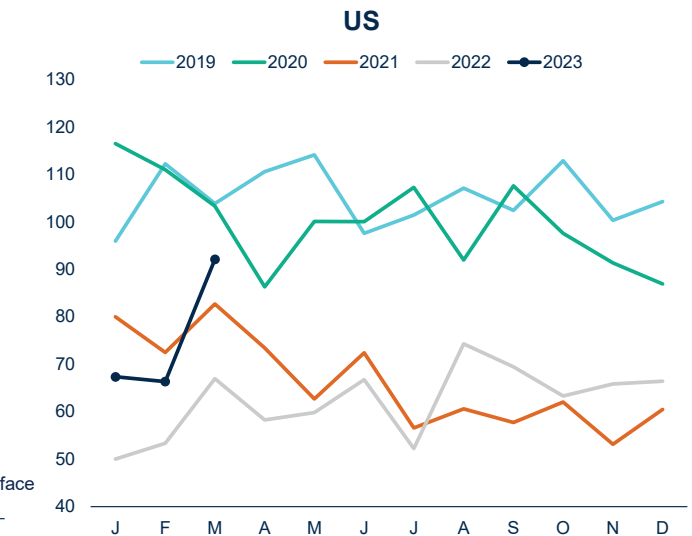
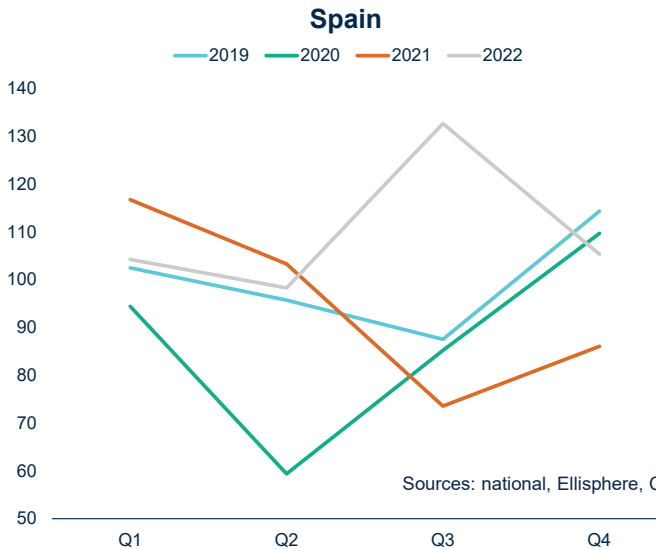
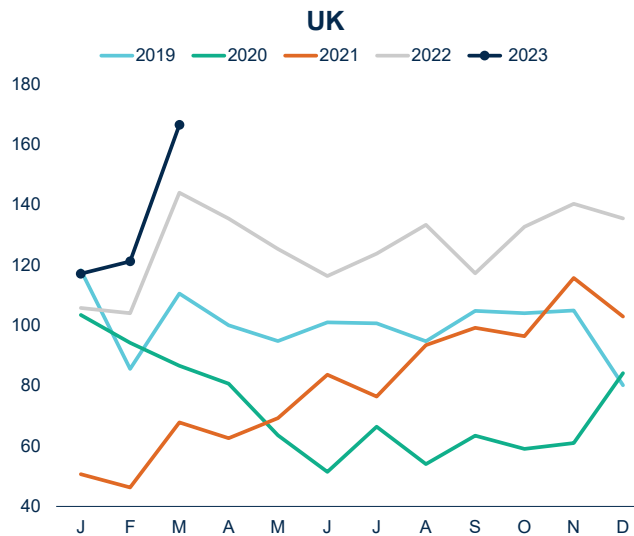
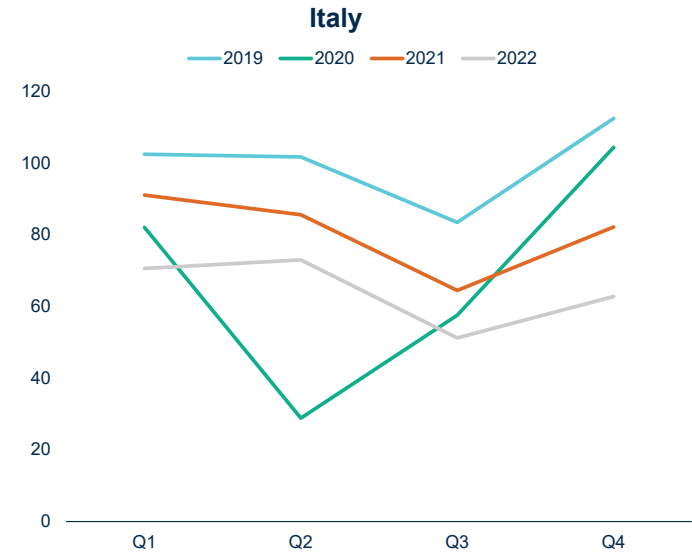
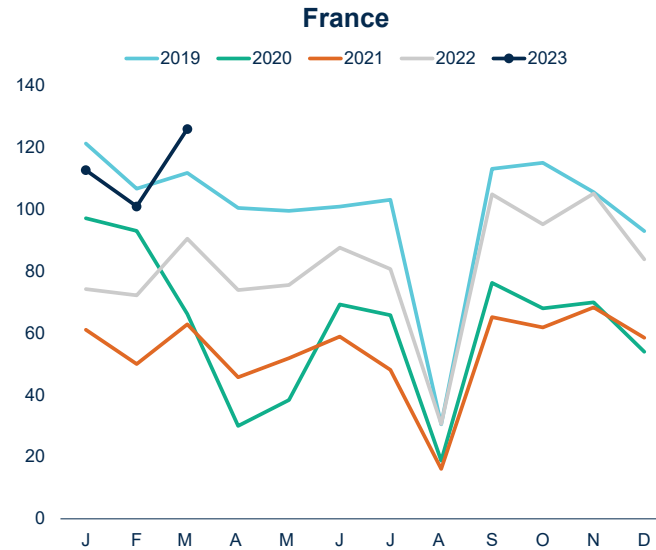
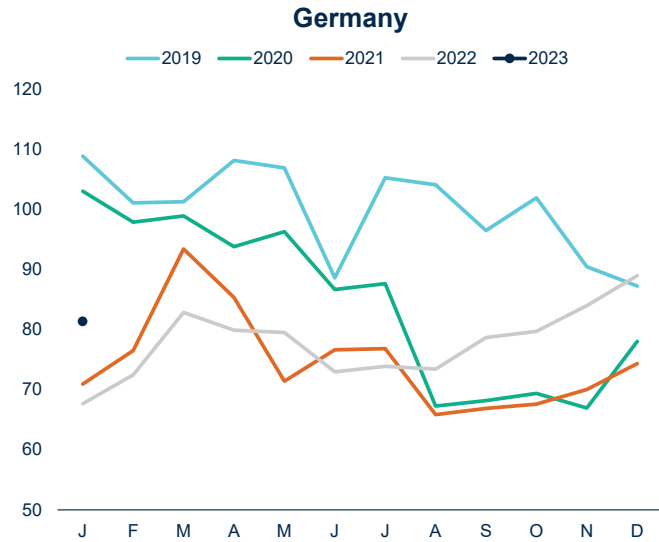
Weaker demand induced **fall in revenues** coupled with **ongoing rise in variable costs** (wages...)
(contrary to what happened during the pandemic when lockdowns led to a drop in variable costs)

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INCREASE OF CORPORATE INSOLVENCIES AHEAD

CORPORATE INSOLVENCIES: ACCELERATION AHEAD

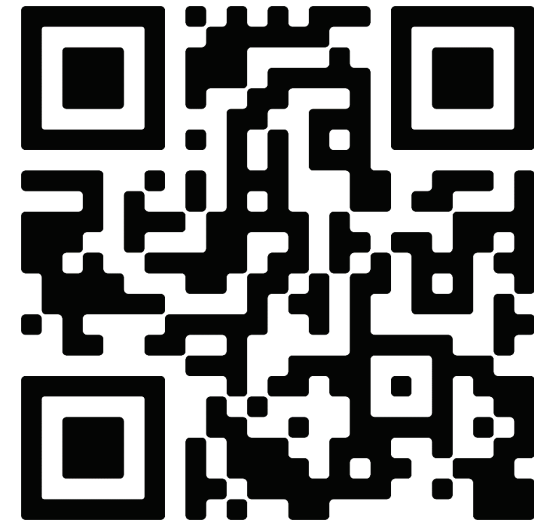
Corporate insolvencies
(100 = average 2019)



Sources: national, Ellisphere, Coface

**TO GET OUR LATEST
ECONOMIC ANALYSIS**

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