Press Release

2018 SACE RISK MAP

Global context is recovering: decline in payment default risks; political instability and violence the unknown in 2018

Out of 198 countries analyzed, 32 have improved and 156 remain stable in their SACE risk categories (together they account for 91% of Italian exports). 10 countries have worsened their risk category

In 2018, Italian exporters will be operating in an improving context, with widespread but fragile growth. It is essential to mitigate the risks by diversifying export markets and protecting companies business with SACE SIMEST

Rome, 25 January 2018 – SACE, which with SIMEST forms the export and internationalization hub of the CDP Group, released the new edition of its Risk Map, presenting the expected context in which Italian companies will be operating in its Focus On **"2018 Risk Map: *Adelante con juicio*".**

The picture painted by the new study is an overall improvement in risk levels spurred by a recovery in global growth, with positive effects on international trade and the Italian economy, particularly on exports, which registered an unexpected leap in 2017. A few factors of instability remains: high levels of debt and uncertainty over the recovery of the commodities cycle are weighing heavily especially on the emerging economies, while instability and political violence are spreading in new areas of the globe. Italian companies will therefore be operating in an improved but still fragile context, in which they will have to move with caution, diversifying geographical areas and arming themselves with risk mitigation instruments.

"2017 was a positive year for the global economy, which also drove recovery in international trade – explains Beniamino Quintieri, Chairman of SACE –. *We foresee continuing growth in 2018 but not without risks. It will be important to closely monitor exogenous variables such the evolution of U.S. relations with Russia, the Middle East, and North Korea, the policies of the Chinese Government, and the outcome of few important election campaigns that might destabilize regional balance in Latin America and Africa. Export and internationalization will continue to play a key role for our economy, but recent experience has taught us not to underestimate any indicator. It becomes increasingly important, therefore, for companies to recognize and assess the risks, wisely diversify their export markets, and utilize the coverage instruments provided by SACE SIMEST".*

Goldilocks economy: are we in 2007 again?

Global growth consolidated in 2017 (+ 3.6% expected), with the emerging economies acting as the engine (+ 4.6%), and with a net improvement in the advanced markets as well (+ 2.2%). This favorable economic context reflected in the dynamics of international trade, which has begun to grow again at a sustained rate (+ 4.5% in the first ten months of 2017), after the slowdown in the post-crisis period. Positive effects have also been shown in Italy, particularly in our exports (+7.8% in the first 11 months of 2017).

Ten years since the outbreak of the global financial crisis, a few indicators seem to recall the positive pre-crisis dynamics: high growth, controlled inflation, favorable financial conditions, low market volatility, and "inversion" of the commodities cycle. At these conditions, the world economy will remain solid only in case of moderate growth, neither too strong nor too cautious. Characteristics that remind us of the so-called

Goldilocks economy, from the Nordic tale where the young Goldilocks states that she prefers her porridge at the right temperature, neither too hot nor too cold.

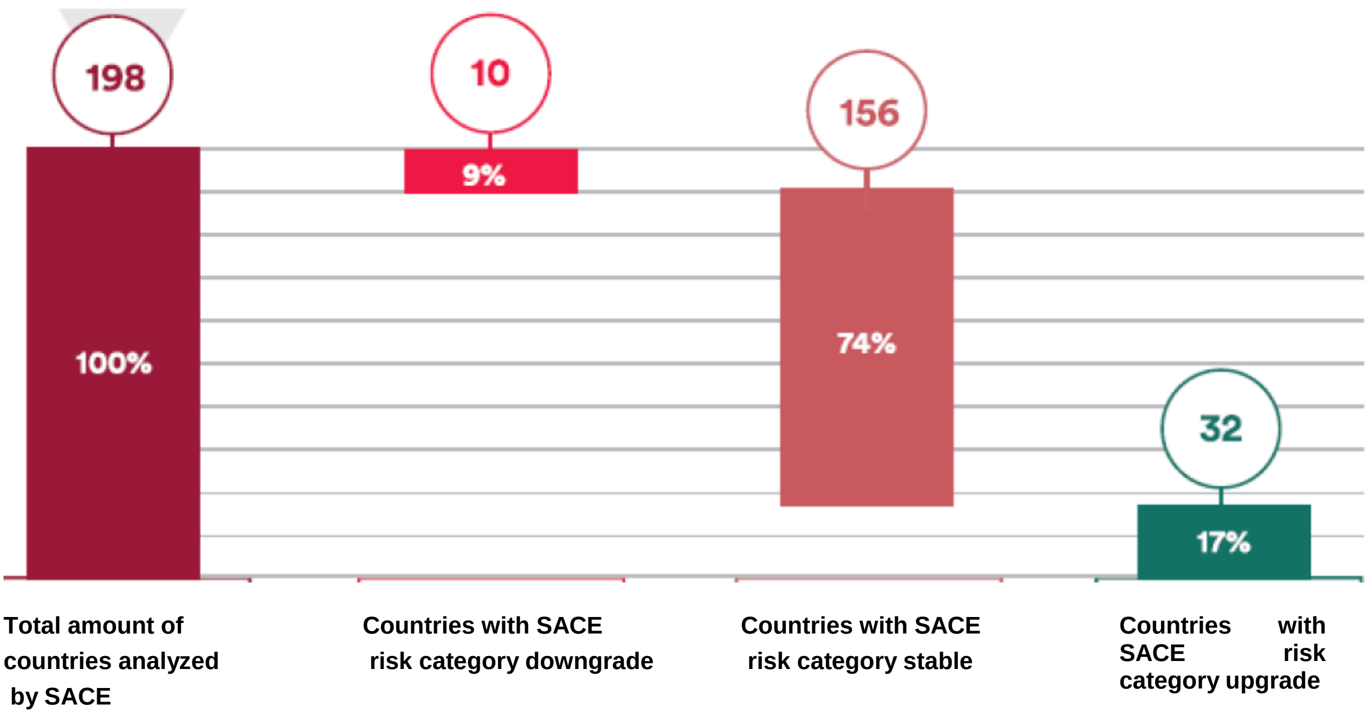
In this context, we must not underestimate some latent risks:

- high levels of debt, especially in the emerging countries
- volatile commodity prices, which impact economic solidity in the economies of the exporting countries
- widespread political instability.

Credit risk indices are improving

Observing the SACE Map, a general improvement in payment default risk is evident. Out of 198 countries analyzed, 32 have improved their SACE risk status and 156 have remained stable (in total they represent 91% of Italian exports or € 380 billion)[1]. Ten economies had declining risk status, representing € 38.5 billion in exports and 9% of the total.

Upgrades and downgrades of SACE credit risk and percent of Italian exports



The most significant upgrades concern primarily the advanced economies (4 points on average): Portugal, Iceland and Slovenia show an above-average positive change. The emerging economies include upgrades of Egypt, Russia, Brazil, India, and Argentina (the last still at high risk levels, however). The downgrades include China, over concerns about its high debt level, and South Africa, with an economy that remains stagnant and with uncertainty over the election of a new president.

[1] Of the 156 in their previous risk categories, 57 have an unchanged indicator, 50 have slightly improved, and 49 have slightly declined.

Payment default risk index

Where risk is declining			Where risk is increasing		
Country	**2018 credit risk index**	**Change vs 2017**	**Country**	**2018 credit risk index**	**Change vs 2017**
United Arab Emirates	42	- 4	Qatar	39	+ 5
Portugal	54	- 6	Oman	49	+ 5
India	54	- 3	China	44	+ 7
Brazil	56	- 4	South Africa	52	+ 6
Russia	66	- 2	Uzbekistan	79	+ 7
Argentina	74	- 8	Mongolia	94	+ 1

High levels of debt persist. The long-awaited process of *deleveraging* has not yet started: the stock of global debt continued to rise during the year and equaled 233 trillion dollars at September 2017 (+ 7.4% versus the end-of-2016), of which 61 trillion in the emerging countries and 172 trillion in the advanced. Despite the increase in absolute value, widespread economic growth contributed to the fourth consecutive quarterly reduction in the debt/GDP ratio, which in September 2017 reached 318%, three percentage points less than the all-time record of 2016. The debt contracted by companies in the emerging markets has more than tripled since the financial crisis, and in September 2017 it exceeded 28 trillion dollars. Without a favorable economic climate, this increase might cause difficulties in the repayment of debt by companies already indebted, with repercussions on domestic and foreign suppliers and on banks.

If the commodity cycle "inverts"? 2017 was a positive year for numerous commodities, and the projections for the current year are generally optimistic. This is already evident in the attenuation of SACE risk indices in various emerging markets heavily dependent on commodities. Those demonstrating a net decline in payment default risk from sovereign counterparties include: Iraq, Argentina, Indonesia, Saudi Arabia, Russia, Brazil, and the Arab Emirates. There are exceptions, however, such as Venezuela, still affected by internal crisis, and Mongolia. Among the principal factors that will affect commodity prices are the shale oil industry in the United States and the increasing role of China as a consumer of industrial raw materials. Regarding petroleum prices (Brent increased by 50% in the second half of 2017), SACE adopted a pricing scenario to assess market staying power, seeking to mitigate the impact of short-term fluctuations: our projections are 54 to 62 dollars a barrel for Brent.

Beware of political risk

In the scenario for 2018 indicated by the Map, political risk also improved worldwide, particularly the risk of confiscation and expropriation (decline from 52 to 50) and lack of transferability and convertibility (improved from 47 to 46). These improvements partly reflect the economic-financial progress of countries that improved their attractiveness to foreign investors (like Colombia and Vietnam) and partly the price increase in crude oil, which has had a positive impact on a few oil-based economies (Nigeria, Azerbaijan, Uzbekistan).

The risk of political violence, however, is the only category showing a slight global downturn, from 44 to 45. These are some areas where this risk remains critical (Afghanistan, Libya, Pakistan, and Venezuela).

The Middle East and North Africa (MENA) and Sub-Saharan Africa remain the most unstable areas, with an average of 58/100 and 56/100, respectively. In the MENA area, in addition to existing conflicts (Syria, Yemen), there are new potential breeding grounds (Qatar, Lebanon, Iran), while in Sub-Saharan Africa the high growth potential of the continent suffers the negative effects of critical chronic situations (Central African Republic, Democratic Republic of the Congo, South Sudan) and new terrorist threats. The election cycle starting in Latin America (Brazil, Colombia, Mexico, and Venezuela) might lead to situations of instability with the rise of populist forces.

The new trend, initiated in 2017 and likely to continue this year, regards the increased risk of political violence in a few countries considered "above suspicion". In fact, the risk indicators show a rise in political violence in countries not characterized by systematic conflicts but where the presence of religious, social and political tensions have caused a deteriorating level of security (the Philippines, Bangladesh, and India, but also Armenia, Azerbaijan, Serbia and Kosovo).

Political risk index

Where risk is declining			Where risk is increasing		
Country	**2018 political risk index**	**Change vs 2017**	**Country**	**2018 political risk index**	**Change vs 2017**
Indonesia	49	- 7	India	47	+ 1
Vietnam	54	- 7	Philippines	53	+ 5
Argentina	57	- 12	Congo	65	+ 2
Egypt	70	- 8	Lebanon	70	+ 4
Angola	71	- 6	Turkmenistan	72	+ 4
Myanmar	74	- 6	Pakistan	85	+ 5

__SACE,__ a wholly-owned subsidiary of Cassa Depositi e Prestiti, offers export credit, credit insurance, protection of foreign investments, financial guarantees, bonding, and factoring. With € 87 billion in insured transactions in 198 countries, SACE supports the competitiveness of companies in Italy and abroad, ensuring more stable cash flows and transforming companies' default risk into development opportunities.
__SIMEST__, 76% subsidiary of SACE, with the primary Italian banks and industrial associations as shareholders, is active in all phases of the foreign development of Italian companies, with low-interest loans to support internationalization and grants in interest to support exports and through the acquisition of equity interests.
SACE, with SIMEST, forms the export and internationalization hub of the CDP Group.

#promuoviamoilfuturo

Contacts for the media
SACE | Press Office
T. +39 06 6736888
ufficio.stampa@sace.IT

Contacts per companies
SACE | Customer Care
toll-free number 800 269 264
info@sace.IT