

# Weekly Export Risk Outlook

25 April 2018

FIGURE  
OF THE WEEK

72%

Corporate  
debt in % of  
GDP in France  
in Q1 2018

## In the Headlines



### France: Corporate debt bromance

Business confidence faltered in April, particularly in the manufacturing sector where it landed at 109 points after skyrocketing to 114 in January (the best level since 2001). The capacity utilization rate landed as well, at 85.3% in April, down from 85.8% in January. Overall, the main explanation was lagging demand as consumption did not follow output acceleration in H2 2017. As a result, corporates decreased their output in Q1, after an increase in inventories last year. This phenomenon was pervasive in the automotive sector in Q1. But, that was not the only game in town. In 2017, corporates' financing needs rose to -3.1% of GDP, higher than the government's financing needs (-2.8% of GDP) for the first time since 1983. In Q1, corporates still borrowed the way they borrow and their debt reached 72% of GDP (EH estimate), a new high. This has already had some consequences. Despite a lower number of total business insolvencies in Q1 (-8% y/y), major insolvencies (corporates with turnover above EUR50mn) are on the rise: we registered 25 cases during the last 12 months, with a total turnover of EUR 4.1 bn (even higher than in 2015, when total insolvencies reached their all-time high).



### Germany: 2018 starts with an economic soft-patch

The sentiment in the German economy continued to deteriorate in April but remains at a still quite high level. The Ifo Business Climate Index recorded its fifth consecutive decline – actually an indication of an incipient downturn. In our opinion, however, the presumably weak growth in Q1 was probably mainly the result of one-off effects such as a high level of sick leave and strike-related losses and thus only temporary. The economic momentum is likely to pick up again somewhat in Q2. Even though some indicators such as industrial production and incoming orders recorded declines at the start of the year, the economic situation remains favorable overall. Despite the sharp fall in January, the industrial order backlog in February was still well above the level in Q4 2017. The labor market continues to develop favorably, too. The number of unemployed keeps on declining significantly and employment continues to rise sharply – good conditions for a clear increase in private consumption this year. Overall, we maintain our forecast of real GDP growth of +2.5% this year (in calendar-adjusted terms).



### Turkey: A step in the right direction, but more is needed

At its regularly scheduled meeting today, the Monetary Policy Committee (MPC) kept the official benchmark policy one-week repo rate unchanged at 8% but raised the late liquidity window lending rate from 12.75% to 13.5%. Since November 2017, the CBT has funded the market entirely through the latter, making it the effective policy rate. The MPC cited concerns about elevated inflation and inflation expectations, notably rising import prices. Both core and CPI inflation have been in double digits for eight consecutive months now; and the latter is likely to rise again this month (from 10.2% y/y in March) as a result of the currency weakening (TRY on average down -4.4% m/m in April, to date) and rising oil prices (Brent up +6% m/m) since Turkey is a net energy importer. Today's MPC move is a step in the right direction as it should mitigate concerns that already loose economic policies is further eased ahead of the snap elections called for 24 June. However, we expect more tightening to be needed in order to facilitate a soft landing of the currently overheating economy (see also [WERO 18 April 2018](#)).



### Eurozone: No tightening in credit standards as yet

The ECB Q1 Bank Lending Survey suggests a positive environment for future financing for the private sector in the Eurozone. Credit standards for loans to corporates eased in Q1 2018, notably for SMEs. For households, credit standards for house purchases eased further compared to Q4. Credit standards on consumer credit eased as well, albeit only slightly. For Q2 2018, banks expect a net easing of credit standards in the three loan categories. Increased competition among banks and the positive economic environment were the main drivers of the easing trend. In addition to inventories, working capital and debt refinancing which continue to weigh positively on loan demand for corporates, higher fixed investment, M&A activity and the low interest rates have been strong boosters in Q1. Across the large Eurozone countries, net demand for loans to corporates increased in Germany, Italy and the Netherlands while remaining unchanged in Spain and France. Net demand from households continued to increase for both housing loans and consumer credit. Banks' expectations continue to point to an increase in net demand in all loan categories.



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# Countries in Focus

## Americas



### Colombia: Off to a better start

In the first two months of 2018, the national activity index climbed back to its highest level since August 2017. In February, it registered its sixth consecutive y/y acceleration. And although it was stable as compared to January, it points to a cyclical improvement, for two reasons. First, the impact of the VAT hike in early 2017 has begun fading away, with improvements in consumer confidence as well as y/y retail sales in January (+5.2%) and February (+6.3%). The central bank's monetary easing (9 rate cuts since December 2016 as inflationary pressures abated) has supported the recovery of credit. Another cut is expected on Friday. Second, the trade balance has improved for the sixth consecutive month, to -USD8.8bn, back close to end-2014 levels. Higher oil prices have boosted exports as oil and related products account for a third of Colombia's exports. The future of investment growth (back to positive territory since Q2 2017) will depend on the outcome of the presidential election next month.

## Europe



### Eurozone: What's behind the lower deficit and debt ratios in 2017?

Despite the -2.3pp decline in the annual public debt to GDP ratio to 86.7% in 2017 (the largest fall since the crisis), Eurozone public debt continued to increase in absolute terms, by +EUR84bn. The largest rises have been registered in France (EUR66bn), Italy (EUR44bn) and Spain (EUR37bn). However, lower average interest rates on debt and higher nominal GDP growth helped reduce the fiscal deficit by -EUR60bn or -0.6pp of GDP in 2017. At -0.9% of GDP, the Eurozone fiscal deficit was close to its 2007 ratio, with only Portugal (-3.0%) and Spain (-3.1%) still posting a deficit of -3% or more. Stronger GDP growth has also helped boost public revenues in 2017 (+0.1pp to 46.2% of GDP), the first increase since 2013, which along with the factors mentioned above caused the primary balance surplus to rise to +1.1% of GDP in 2017 from +0.6% in 2016. In 2018, we expect all Eurozone countries to meet the -3% Maastricht criterion, which would be the first time since the adoption of the Euro.

## Africa & Middle East



### Angola: Get right

Angola's government made several progresses. The floating of the exchange rate was the first necessary reform (-23% depreciation since January). The import cover of FX fell below 5 months in February (from 8 months a year earlier). Angola asked for IMF guidance last week, under a Policy Coordination Instrument (a program without financing). It may allow access to Eurobond markets (a USD2bn bond is planned for May). More structural reforms will be needed to stay on-track with the IMF. SOEs are one tip of the iceberg, since these corporates contributed to a visible debt increase. First reforms of corporate governance have been well received. External debt has become a key problem, having risen to 45% of GDP. The willingness to reschedule is welcome and possible – Mozambique has paved the way, having already reached agreement with its bilateral creditors. It should help Angola's government to pay about USD5bn of arrears to local corporates. Overall, a likely easing of financing conditions would help growth to accelerate from +0.7% in 2017 to +2% in 2018.

## Asia Pacific



### Indonesia: Monetary policy – to hike or not to hike?

Bank Indonesia (the central bank) kept its key policy interest rate unchanged at 4.25% at its last meeting on 19 April. The authorities considered that the current policy stance is appropriate to maintain both macroeconomic and financial stability, yet they acknowledged mounting external pressures, including rising oil prices, tighter monetary policy in the U.S. and risks related to U.S.-China trade frictions. Meanwhile, inflation has remained under control, at 3.4% y/y in March, comfortably within the inflation target band (+2.5% to +4.5%). Economic growth is improving but the pace is fragile: the manufacturing PMI eased to 50.7 points (still signaling expansion) in March, from a 20-month high of 51.4 in February. Going forward, we expect Bank Indonesia to maintain its policy rate unchanged until the end of this year as this would help consolidate the current growth momentum (we forecast real GDP to rise by +5.3% in 2018, after +5.1% in 2017). This would pave the way for a rate hike of +25bp in 2019.



## What to watch

- April 26 – ECB meeting
- April 26 – Spain Q1 unemployment rate
- April 27 – Brazil March unemployment rate
- April 27 – Eurogroup meeting
- April 27 – European Sentiment Indicator (ESI) for April
- April 27 – France, Spain, Taiwan and UK Q1 GDP (preliminary estimates)
- April 27 – France April CPI
- April 27 – Taiwan Q1 GDP (preliminary estimate)
- April 30 – Germany March retail sales
- April 30 – Mexico Q1 GDP (preliminary estimate)
- May 2 – Eurozone Q1 GDP (first estimate)
- May 2 – Eurozone March unemployment
- May 2 – EU April Manufacturing PMIs
- May 2 – Italy Q1 GDP (first estimate)

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