Press Release

Euler Hermes Q1 country risk ratings: Argentina, Brazil, Egypt upgrades

PARIS – 18 APRIL 2017 – Euler Hermes, the worldwide leader in credit insurance, published its Q1 2017 country risk ratings by its economic research department, upgrading the ratings of Argentina, Brazil and Egypt. The company monitors the macroeconomic imbalances, business environment and political stability of nearly 250 countries to help clients anticipate export risk.

"Donald Trump's arrival at the White House has shaken the world economy out its lethargy of the past seven years," said Ludovic Subran, chief economist at Euler Hermes. "Increased volatility, positive news on prices - commodities in particular, and an accelerating US economy (+2.3% in 2017) benefit reform-oriented emerging countries. This can be seen in renewed confidence and capital inflows. At the same time, Europe's resilience and China's economic policy efforts are welcome factors, and the rise in protectionism seems to be contained. Does this mean all the lights are green? No, and a selective approach is still necessary -- which makes Argentina, Brazil and Egypt interesting examples."

The skies clear (at last) for Argentina (C4 rating → C3)

The first measures of the Macri plan (lifting of capital controls, budgetary cuts, monetary tightening), initiated last year to rebalance the Argentinian economy, weighed on its performance in 2016. GDP contracted by -2.3% during the year, inflation neared 40% and the current account deficit rose to 2.6% of GDP. But growth has returned. Argentina's GDP grew by +0.5% between Q3 - Q4 2016, boosted by the solid export performance over the period (+3.2%). Positive momentum began at the end of 2016 and the outlook for 2017 is good.

"Argentina is now in a more comfortable financial situation due to renewed access to international capital markets," said Alberto González de Aledo Pérez, economist at Euler Hermes. "Moreover, the lifting of soya export quotas enabled a rebound in Argentinian exports. The removal of price subsidies is also now having a positive effect. Inflation linked to this measure is over, and the new pricing freedom provides for a better balance between supply and demand and slows over-consumption and over-investment. Overall, inflation is expected to decelerate in 2017, dropping to approximately 20%. We estimate the Argentinian economy will grow by 3.2% this year, buoyed mainly by investment, which is expected to increase by 8.3% (-5.2% in 2016)."

These factors underpinned Euler Hermes' upgrade of Argentina's country risk rating from C4 to C3 – improving to "high" from "significant" over a 12-month horizon.

Brazil recovers its balance (C3 → B3)

Brazil has responded to two crucial challenges in the past two years, enabling it to rebalance its economy and raise hopes of emerging from recession. By implementing a counter-cyclical monetary policy, the country has managed to slow inflation, now forecast at 5.1% for 2017 (2015: 10.7%). Brazil's current account deficit has also been significantly reduced, from 3.3% of GDP in 2015 to 1.1% in 2016 due to a slight upturn in commodities prices. The adjustments weighed on growth, with a 3.5% GDP contraction in 2016. But the drop in inflation enabled the Brazilian central bank to reduce its key policy interest rate for the first time in four years, by 200 basis points to 12.25%.

"Brazil's inflation has been easily brought back within range," said Ludovic Subran. The Brazilian central bank may take advantage of this to further stimulate the domestic economy, bringing some relief to consumers and businesses. We expect household consumption to grow by 0.9% in 2017 (-5% in 2016) and investment to grow by 1.9% (-11% in 2016). The Brazilian economy should therefore lift its head above water, with growth forecast at +0.6% in 2017. The recession will end this year, but it is still too soon to speak of a lasting return to growth."

The upturn led Euler Hermes to raise Brazil's country risk rating from C3 to B3, remaining "significant" over a 12-month horizon.

Egypt's balancing act (D4 => D3)

In November 2016, the Egyptian government implemented two long-awaited reforms. First, it ended the EGP/USD peg, which weighed heavily on the country's foreign currency reserves. A 50% devaluation of the Egyptian pound followed, leading to the disappearance of the parallel foreign exchange market. Secondly, the government substantially cut public subsidies.

"These two measures will have non-negligible impacts on the Egyptian economy," explained Euler Hermes analyst Stéphane Colliac. "The currency devaluation will increase the cost of imports. This is likely to encourage Egypt to import less, which in turn would reduce the current account deficit to -3.5% in 2017 (2016: 5.8%). The public subsidies cuts should help curb Egypt's huge fiscal deficit, from -12% in 2016 to -9% in 2017. On the other hand, the Egyptian economy will not grow in 2017. Local currency volatility is likely to push inflation up, to 26% in 2017 (2016: 13%). However, doubts as to the viability of the Egyptian model have almost disappeared. Foreign currency reserves have risen from three months in September 2016 to seven months of imports in February 2017."

Economic recovery is expected in 2018, with a growth of +1.5% that will also be more balanced than in past. Euler Hermes therefore upgraded Egypt's country risk rating from D4 to D3, and from "high" to "significant" over a 12-month horizon.

Country risk rating methodology
Evaluation of the overall level of country risk is based on a structural Country Grade, which measures transfer, convertibility, confiscation and expropriation risk, and the quality of the business climate (six grades from AA to D); and a Short-Term Alerts Indicator (scale of 1 to 4).

The structural Country Grade combines assessments of:
1. *Macroeconomic imbalances*
2. *The business environment*
3. *Political system stability and the effectiveness of government (political risk).*

The Short-term Alerts Indicator measures:
1. *The economic cycle*
2. *The country's financing risk.*

The country risk map is available at: http://www.eulerhermes.com/economic-research/country-risks/Pages/country-reports-risk-map.aspx#map

Media contacts:

Publicis Consultants
Romain Sulpice +33 (0)1 44 82 46 21
romain.sulpice@mslfrance.com