

SLECIC

Quarterly Risk Outlook (4th quarter 2024)

Sri Lanka Export Credit Insurance Corporation

China - Recovery proved much more fragile than anticipated.

China, officially the People's Republic Of China, is a country in East Asia. With a population exceeding 1.4 billion, it is the world's second- most populous country after India. China is the second-largest global economy, the largest exporter and has the largest exchange reserves in the world. However, even though China has one of the fastest-growing GDPs worldwide, its economic growth was abruptly slowed by the impact of the COVID-19 pandemic. After growing only 3% in 2022, the sudden abandonment of the zero-tolerance COVID-19 policy in late 2022 prompted a rapid recovery in the first quarter of 2023 when GDP surpassed expectations, expanding by 2.3% quarter-on-quarter, fueled by the resurgence of private consumption and state-owned enterprise investment. However, the rebound proved short-lived due to the deeper-than-expected impact of the pandemic, resulting in households maintaining high precautionary savings. Moreover, ongoing uncertainty from the real estate crisis continued to dampen consumer and investor confidence.

Growth softened in the second quarter (0.5% q-o-q) as households, private enterprises, and local governments actively deleveraged, before regaining momentum in the third quarter (1.3% q-o-q). For the year as a whole, China's economy expanded by 5.2%, slightly surpassing the official target. However, the recovery proved much more fragile than anticipated by many analysts and investors. A deepening property crisis, increasing deflationary risks, and subdued demand have overshadowed the outlook for the current year. Projected to decline to 4.2% in 2024 and 4.1% in 2025 (IMF forecast), growth is anticipated to linger well below its pre-pandemic trend for both years. China's current growth model, reliant on substantial investment in real estate and infrastructure fueled by debt, is faltering, while new growth drivers remain underdeveloped. The expected continuation of household consumption recovery is forecasted for both 2024 and 2025. Concerning public finances, China's fiscal revenue rose 6.4% in 2023, picking up significantly from a 0.6% increase in COVID-hit 2022, while fiscal expenditures rose 5.4% (official government data). Thanks to its enormous trade surplus over the past few years, China has become the world's largest exporter and ranks second among the world's largest importers.

Spain - The unemployment rate was estimated to come down in 2024 and 2025 11.3% to 11.1% respectively

Spain, a country on Europe's Iberian Peninsula, includes 17 autonomous with diverse geography and culture. Spain has been in the midst of a balanced economic recovery in recent years; although the COVID-19 crisis led the country into an unprecedented downturn in economic activity, with the deepest contraction among EU member states. Nevertheless, the Spanish economy recovered well from the crisis, growing by 5.8% in 2022 and an estimated 2.5% in 2023, driven by external and domestic demand, benefiting also from a strong carry-over from 2022 and a marked improvement in the terms of trade. Domestic demand, driven by increased real income for households and ongoing relief from price pressures, should be the key growth driver this year. The extended implementation of the Recovery and Resilience Plan, coupled with a faster disbursement to ultimate recipients, is projected to bolster investment, particularly in machinery and equipment. Consequently, GDP is predicted to grow by 1.7% in 2024 (still above euro zone average), with a slight acceleration to 2% in 2025 according to the EU Commission, as the recently approved RRF loan component adds further impetus to growth-oriented expenditures.

In 2023, the anticipated decline in the general government deficit was projected to be more gradual compared to the preceding years. Despite robust personal income tax revenues, overall tax revenues are exhibiting signs of moderation after a period of buoyant growth, primarily due to lower-than-expected growth in indirect tax revenues, influenced by the slowdown in the inflation of imported goods. On the expenditure side, the increase in current expenditure was propelled by rising pension costs linked to inflation indexation and growing intermediate consumption. Additionally, the government approved two additional packages of measures, costing an estimated EUR 2.7 billion (0.2% of GDP), aimed at alleviating the impact of high energy prices. These measures included an extension of the VAT reduction for basic food items and direct support for the road and maritime transport sectors. Overall, the budget deficit was estimated at 3.9% of GDP last year, with a further reduction expected in 2024 (2.9%) due to savings from the phasing out of energy-related measures.

The trajectory for the debt-to-GDP ratio in 2023 indicated a decline, reaching 107.3% (from 111.6% one year earlier), which should continue over the forecast horizon. This stabilization is attributed to the diminishing favorable gap between nominal GDP growth and the cost of servicing debt. In 2023, HICP inflation saw a reduction to 3.6%, primarily influenced by the ongoing moderation of the energy component. For 2024, there is an anticipated further slowdown in HICP inflation to 3.4%, even with the upward pressure resulting from the expected phasing out of government measures implemented in preceding years to counter the impact of high energy prices. As we move into 2025, HICP inflation is forecasted to average 2.1% (data EU Commission).The labor market was resilient in 2023, supported by sustained job creation and a decrease in the proportion of temporary employees in the private sector, despite a slowdown in employment growth observed since the summer. The unemployment rate was estimated at 11.8% in 2023 and is expected to continue improving in the forecast period, reaching 11.3% and 11.1% in 2024 and 2025, respectively (IMF). Wages are anticipated to experience a moderate increase, aligning with the thresholds outlined in the multi-year agreement signed last May, with no significant impact on cost-competitiveness. Spain remains a country with strong inequalities: according to the latest data by Eurostat, 26% of the population is at risk of poverty or social exclusion (the fourth-highest level in the EU), despite a relatively high GDP per capita (USD 50,472 in 2023 – IMF).

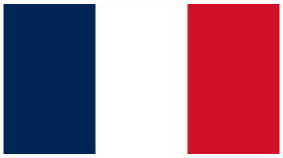
Benin - Fitch predicts the budget deficit will decrease to 4.1% in 2024, and 3.3% in 2025.

Benin's strong macroeconomic fundamentals have helped the country achieve robust economic growth despite recent external shocks such as the Covid-19 pandemic and the war in Ukraine. After reaching 6.3% in 2022, GDP growth remained resilient in 2023, slowing down to 5.5% (IMF), fueled by robust agricultural production, an expanding agroindustry sector invigorated by new operations at the Glo Djigbe Industrial Zone (GDIZ), and lively construction endeavors. Economic growth is expected to pick up to an annual average of 6.3% in 2024 and 6% next year, reflecting higher infrastructure spending, increased agricultural output, and a wider regional recovery.

Benin is dedicated to a consolidation strategy, centered around the IMF program, with the goal of decreasing the budget deficit to 3% of GDP by 2025 from 5.5% in 2022. Fitch predicts the budget deficit will decrease to 4.7% of GDP in 2023, 4.1% in 2024, and 3.3% in 2025. The program prioritizes revenue mobilization, aiming to increase tax/GDP by 0.5 percentage points each year. In recent years, the general government debt/GDP ratio has risen, reaching an estimated 53% in 2023 according to the IMF. Projections suggest that debt is expected to decrease to 52.4% in 2024 and further to 51.4% in 2025, bolstered by budget consolidation efforts and GDP growth. Public debt is divided equally between multilateral loans, external obligations, and domestic obligations, and it should stabilize thanks to continued fiscal consolidation and growth (Coface). In 2023, the current account deficit stood at 6.1% of GDP, showing only a slight improvement from 6.2% in 2022. This occurred despite declines in international fuel and food prices and a weakened dollar. Factors contributing to this trend include reduced cotton production and prices, decreased trade volumes with Nigeria and Niger, and increased official imports of fuel, as reported by Fitch Ratings. As per inflation, it was estimated at 5% in 2023, with an expected reduction to 2.5% this year and 2% in 2025 (IMF).

Despite many efforts to reduce it, the poverty rate remains as high as 38.5% according to World Bank data. In 2022, the unemployment rate in the country was estimated at 1.5%. However, the underemployment rate stood at more than 70%, and the informal employment rate at more than 90% (World Bank).

France - Due to robust domestic demand, imports are projected to increase, which will have a negative impact on GDP growth from net exports.



France is ranked seventh among the world's largest economies, just behind the United Kingdom and India (WEF, 2022). After suffering one of the sharpest economic contractions among EU countries due to the COVID-19 pandemic, the French economy has recovered strongly. However, in the first quarter of 2023, domestic demand remained subdued due to high inflation and tighter financial conditions, which offset government support initiatives and resilient wages that maintained household purchasing power. Domestic demand recovered, emerging as the main driver of growth, only from the second quarter of the year. For the whole of 2023, the IMF estimated growth at 1% of GDP. Economic activity is projected to gradually increase over the forecast period, as private consumption recovers and inflation gradually declines (to 1.3% this year and 1.8% in 2025 according to the IMF). Due to robust domestic demand, imports are projected to increase, which will have a negative impact on GDP growth from net exports.

Regarding public finances, the net budgetary cost of initiatives to mitigate the effects of rising energy prices was estimated at 0.8% of GDP in 2023, compared to 0.9% a year earlier. At the same time, the indexation of pensions and social benefits, aimed at strengthening household purchasing power, continued to increase public spending, while the economic slowdown was likely to dampen tax revenues. The general government deficit was projected to remain stable at 4.3% of GDP, with a slight decline this year (4.1% according to the IMF) due to the withdrawal of most energy-related measures. After declining to 110% of GDP in 2023 on the back of strong nominal GDP growth, public debt is expected to stabilize in 2024 and 2025, although the European Commission envisages a possible increase in the near future due to ongoing primary deficits, rising interest costs and reduced nominal growth. After peaking in early 2023, inflation eased over the year, averaging 5.6%. The French government decided to extend the electricity price cap until early 2025. For 2024 and 2025, the IMF projects inflation at 2.5% and 2%, respectively. According to the OECD, France should implement a medium-term fiscal strategy to accelerate fiscal consolidation. A rapid and comprehensive implementation of the National Recovery and Resilience Plan would be beneficial, particularly as it includes various reforms aimed at greening the economy, facilitating digital transformation, reducing administrative burdens, strengthening the coordination of public employment services, and revitalizing health strategies at the national and local levels.

In 2023, the labor market maintained its vitality. The unemployment rate stabilized at 7.2% in the second quarter of 2023, approaching its lowest level since 2008, while the employment rate reached a record high of 68.6%. However, employment growth is expected to slow due to the gradual dissipation of labor stockpiling, reduced job creation from apprenticeship contracts, a return of hours worked to 2019 levels, and an increase in labor productivity. According to the IMF, the unemployment rate is expected to decrease to 7.3% in 2024 and further to 6.9% in 2025, after a rate of 7.4% in 2023. On average, French citizens benefit from a high GDP per capita (PPP), estimated at US$58,765 in 2023 by the IMF. However, inequalities persist and according to a UNICEF study, 21% of French children live below the poverty line.

United Kingdom - Concerning public finances, the public sector deficit narrowed to 3.3% of GDP in 2023 (from 3.8%) and should decrease to 3.1% of GDP by 2025, owing to a combination of increased taxes and reduced spending.

The United Kingdom is the 6th largest economy in the world. After rebounding in 2022 (+4.1%), GDP growth was subdued in 2023, estimated at 0.5% by the IMF as the effects of elevated interest rates and more stringent fiscal policies counterbalance the advantages to households stemming from reduced energy prices. Accordingly, consumption is set to grow only slowly 2024, before picking up in 2025. Concerning companies, despite the dissipation of Brexit-related uncertainty and the robust condition of balance sheets, they are confronted with subdued short-term prospects for demand growth and significantly elevated borrowing costs. The IMF expects growth to be low in 2024 (+0,6%), while a modest pickup should be registered in 2025 (2%), although structural impediments to growth will persist, including low levels of both public and private investment and skills gaps.

Concerning public finances, the public sector deficit narrowed to 3.3% of GDP in 2023 (from 3.8%) and should decrease to 3.1% of GDP by 2025, owing to a combination of increased taxes and reduced spending. In 2023, the tax burden rose by over 0.5% of GDP. Government expenditure plans anticipated minimal growth in nominal spending for the fiscal years 2023-24 and 2024-25, posing challenges amidst heightened pressures on the public sector, particularly for increased wages. Elevated bond yields also led to a significant rise in debt interest payments. The government's gross debt is projected to slightly decrease over the forecast horizon, going from 104.1% of GDP in 2023 to 107.3% by 2025 (nevertheless, the EU Commission sees the debt declining to 96.5%). The government has adopted several support measures to help households and businesses cope with rising energy prices, including the Energy Price Guarantee and the Energy Bill Relief Scheme. The Bank of England has responded to rising inflation with monetary tightening, raising the policy rate several times, and starting to sell government bonds. After peaking in 2022, inflation was estimated at 7.7% last year and is expected to gradually decline in the forecast period, reaching 2.1% in 2025, remaining slightly above the 2% inflation target. Tackling inflation is the government’s priority, in addition to addressing long-standing structural challenges such as low productivity growth, high inequalities of opportunity and achieving carbon neutrality, with the ‘Plan for Growth’ and ‘Levelling Up’ agenda (OECD).

While the labor market experienced swift employment expansion in early 2023, the momentum waned in the latter part of the year. Employment has been on the decline since April, vacancies have decreased, and the unemployment rate has inched up from 3.7% in 2022 to 4.2% in the previous year. Anticipated to climb to 4.6% in 2024 due to sluggish employment growth, unemployment should slightly decrease in 2025 as employment growth picks up, reaching 4.3% according to the IMF. The country’s GDP per capita (PPP) was estimated at USD 56,836 in 2023 by the IMF, but the relatively solid macroeconomic performance of the United Kingdom conceals weaknesses and situations of inequality. Thus, as the IMF has emphasized, strengthening human capital is a key priority.

Oman - GDP growth is projected to slightly expand to 1.4% in 2024

The Sultanate of Oman has experienced remarkable economic growth since 2004, primarily driven by the exploitation of its oil reserves. Despite a contraction due to the pandemic, Oman's economic recovery continued in 2022 (+4.3% of GDP), supported by favorable oil prices and sustained reform momentum. In 2023, growth persisted, albeit at a slower pace (+1.2%), reflecting OPEC+-related oil production cuts. GDP growth is projected to slightly expand to 1.4% in 2024, supported by increased gas production, the commencement of operations at the Duqm refinery, and higher non-hydrocarbon growth (2.5%). Over the medium term, non-hydrocarbon growth is expected to gradually increase to 4%, supported by global demand recovery, continued reforms, and robust private investment, particularly in non-hydrocarbon sectors.(IMF)

Oman has made significant progress in strengthening its fiscal and external positions while advancing the implementation of Oman Vision 2040. The Medium-Term Fiscal Plan (MTFP), initiated in 2020, has played a crucial role in achieving fiscal sustainability by diversifying revenue streams, controlling expenditures, and prudently managing hydrocarbon windfall savings. The overall fiscal balance achieved a surplus of 5.5% of GDP in 2023, driven by favorable oil prices and sustained fiscal discipline. However, it is projected to decrease to 3.7% of GDP in 2024, mainly due to increased social spending as the new social protection law takes effect. Over the medium term, the overall fiscal balance is expected to remain comfortably in surplus, declining to 3.3% of GDP by 2028 in line with oil price trends. Central government debt, which stood at 37.7% of GDP in 2023, is forecasted to decrease to around 30% of GDP by 2028, supported by favorable debt dynamics and ongoing net repayments.

Oman's risk of sovereign debt stress is assessed as low, supported by the availability of liquid financial assets to the government, which helps mitigate solvency and liquidity risks. Inflation decreased to 1.2% in 2023, primarily attributed to lower transport and food inflation rates, and is anticipated to align with a target of 2% over the medium term, consistent with the currency peg to the U.S. dollar.

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