Atradius
Managing risk, enabling trade

Atradius Country Reports

Central, Eastern and South-Eastern Europe – September 2016

Contents

Central, Eastern and South-Eastern European economies: Atradius STAR Political Risk Rating*:

Czech Republic:	3 (Moderate-Low Risk) - Stable
Hungary:	5 (Moderate Risk) - Positive
Poland:	3 (Moderate-Low Risk) - Negative
Russia:	5 (Moderate Risk) - Positive
Slovakia:	3 (Moderate-Low Risk) - Positive
Turkey:	5 (Moderate Risk) - Stable

* The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk.

The 10 rating steps are aggregated into five broad categories to facilitate their interpretation in terms of credit quality. Starting from the most benign part of the quality spectrum, these categories range from 'Low Risk', 'Moderate-Low Risk', 'Moderate Risk', 'Moderate-High Risk' to 'High Risk', with a separate grade reserved for 'Very High Risk.'

In addition to the 10-point scale, rating modifiers are associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

For further information about the Atradius STAR rating, please click here.

Czech Republic

Main import sources (2015, % of total)	
Germany:	30.1 %
Poland:	9.0 %
China:	8.4 %
Slovakia:	6.6 %
The Netherlands:	5.0 %

Main export markets (2015, % of total)	
Germany:	32.5 %
Slovakia:	9.0 %
Poland:	5.9 %
United Kingdom:	5.3 %
France:	5.1 %

Key indicators	2013	2014	2015	2016*	2017*
Real GDP (y-on-y, % change)	-0.5	2.7	4.6	2.5	2.7
Consumer price (y-on-y, % change)	1.4	0.4	0.3	0.7	2.2
Real private consumption (y-on-y, % change)	0.5	1.8	3.1	2.8	2.6
Retail sales (y-on-y, % change)	-1.1	5.7	6.4	4.7	2.6
Industrial production (y-on-y, % change)	-0.1	5.0	4.6	3.9	4.1
Unemployment rate (%)	7.0	6.1	5.1	4.2	4.1
Real fixed investment (y-on-y, % change)	-2.5	3.9	9.1	3.9	3.2
Export of goods and non-factor services (y-on-y, % change)	0.2	8.7	7.9	5.2	4.1
Current account/GDP (%)	-1.4	0.6	0.9	0.8	-0.2
Fiscal balance (% of GDP)	-1.2	-1.9	-0.4	-0.6	-0.9

* forecast Source: IHS

Czech Republic industries performance outlook


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

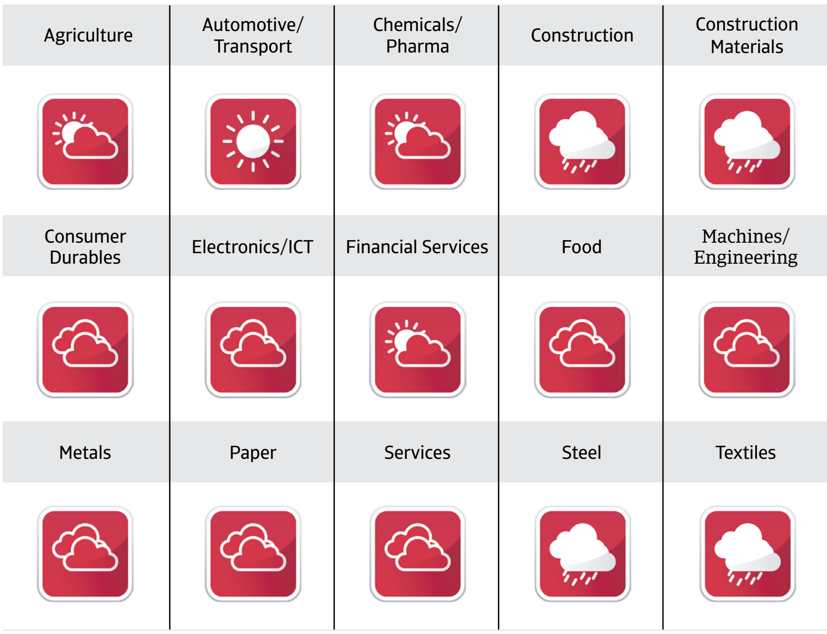

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.


Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.


Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.


Bleak:
The cedit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

September 2016



Political situation

Head of state:
President Milos Zeman
(since March 2013)

Head of government:
Prime Minister Bohuslav Sobotka
(since January 2014)

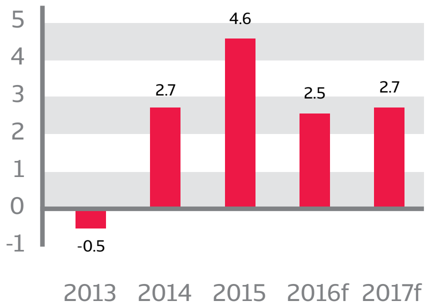
Population:
10.5 million

Stable coalition government

Since January 2014 the Czech Republic is ruled by a centre-left coalition, holding 111 of the 200 seats in parliament. The coalition is led by the leftist Czech Social Democratic Party (CSSD), while the other two parties in the coalition are the centrist ANO 2011 and the Christian Democrats (KDU-CSL).

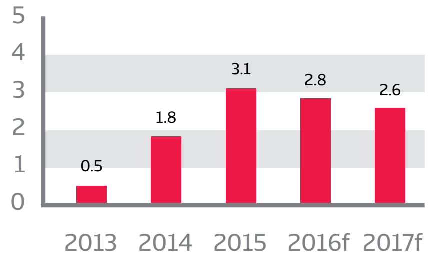
Economic situation

Real GDP growth (y-on-y, % change)



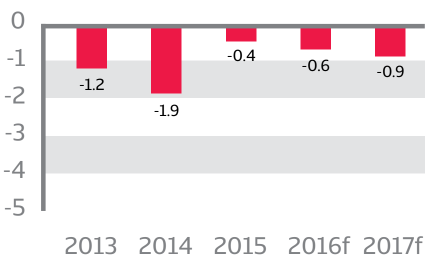
Source: IHS

Real private consumption (y-on-y, % change)



Source: IHS

Fiscal balance (% of GDP)



Source: IHS

Weaker, but still solid growth expected

In 2015 the Czech economy recorded a robust 4.6% growth, thanks to higher private consumption, EU-financed public investment and buoyant exports (especially automotive related goods).

While growth is expected to slow down in 2016 and 2017, the forecast GDP growth rates of 2.5% and 2.7% respectively are still solid. While public investment has decreased, domestic demand is expected to remain robust. Private consumption growth is driven by income growth, decreasing unemployment and favourable lending conditions. At the same time export growth is set to continue, driven by demand from the eurozone and the fact that the country´s international competitiveness has improved.

In order to improve the country´s competitiveness and boost exports as well as to contain deflationary pressures, in November 2013 the Central Bank intervened in the currency market by buying euros in order to weaken the koruna against the euro. Since then, it has repeatedly stated it will automatically intervene in order to keep the koruna rate close to a currency ceiling level of 27 per euro, at least until 2017. Inflation is expected to remain low in 2016, at 0.6%, but is forecast to increase above 2% in 2017 due to wage growth and as the effect of lower food and energy prices will fade.

Since 2013 the budget deficit has remained below this threshold and is expected to do so in 2016 (0.6% of GDP) and 2017 (0.9% of GDP). At 41% of GDP, government debt is low compared to other countries in the region. The improvement in public finances means that the Czech Republic would have no troubles adhering to the adoption criteria of the euro. However, entering the eurozone still remains a controversial issue in Czech politics.

The current account is stable, and expected to reach another surplus of 0.8% of GDP in 2016, followed by a 0.2% of GDP deficit in 2017, as a buoyant domestic market will raise the level of imports.

High export-dependency as a potential risk factor

Despite the generally benign outlook for the Czech economy, downside risks remain, especially as the rebound in the eurozone remains fragile. At more than 75%, the Czech Republic's export-to-GDP ratio is one of the highest in the EU, making it especially vulnerable to foreign trade losses.

Atradius
Managing risk, enabling trade

Hungary

Main import sources (2015, % of total)	
Germany:	26.2 %
China:	6.8 %
Austria:	6.7 %
Poland:	5.5 %
Slovakia:	5.4 %

Main export markets (2015, % of total)	
Germany:	28.1 %
Romania:	5.4 %
Slovakia:	5.1 %
Austria:	5.0 %
Italy:	4.8 %

Key indicators	2013	2014	2015	2016*	2017*
Real GDP (y-on-y, % change)	2.0	3.6	2.9	1.8	2.6
Consumer price (y-on-y, % change)	1.7	- 0.2	-0.1	0.9	2.1
Real private consumption (y-on-y, % change)	0.5	1.5	2.6	3.7	2.6
Retail sales (y-on-y, % change)	1.5	5.3	3.7	2.5	3.3
Industrial production (y-on-y, % change)	1.1	7.7	7.5	3.7	4.0
Unemployment rate (%)	10.0	7.8	6.8	6.0	5.8
Real fixed investment (y-on-y, % change)	7.3	12.0	1.2	-8.8	2.5
Export of goods and non-factor services (y-on-y, % change)	6.3	7.6	8.4	5.2	3.7
Current account/GDP (%)	3.1	4.2	4.4	4.5	3.9
Fiscal balance (% of GDP)	-2.6	-2.3	-1.9	-2.6	-2.7

* forecast Source: IHS

Hungary industries performance outlook


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

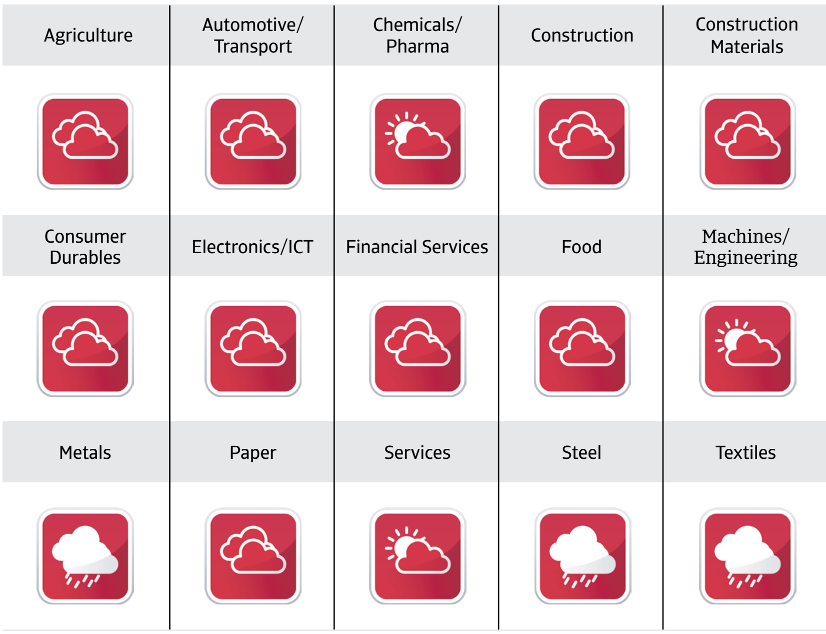

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.


Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.


Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.


Bleak:
The cedit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

September 2016



Political situation

Head of state:
President Janos Ader
(since May 2012)

Head of government:
Prime Minister Viktor Orbán
(since May 2010)

Population:
9.8 million

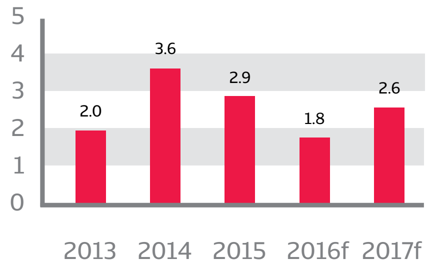
Relationship with the EU remains troublesome

The ruling conservative coalition of the Fidesz and KDNP parties under Prime Minister Viktor Orbán has repeatedly taken actions that led to confrontations with the EU commission and its EU peers (e.g. a controversial media law, some constitutional amendments curbing the independence of the judiciary, and a tough stance in the migrant policy, together with a lack of willingness to accept the mandatory quotas for refugees passed by the EU.

Together with some unorthodox economic policy decisions like additional taxes on banks, the government's repeated confrontations with the EU have led to some uncertainty among its European peers and international investors.

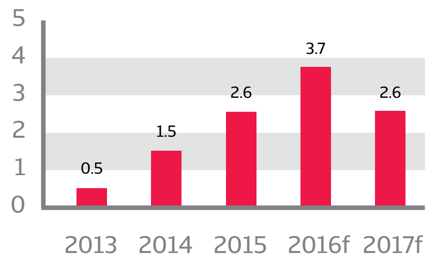
Economic situation

Real GDP growth (y-on-y, % change)



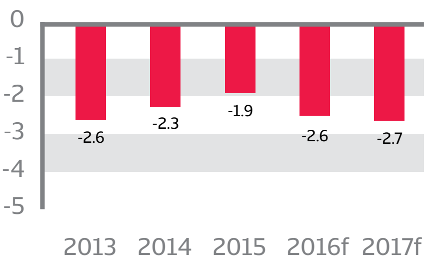
Source: IHS

Real private consumption (y-on-y, % change)



Source: IHS

Fiscal balance (% of GDP)



Source: IHS

Slower growth expected in 2016, followed by a rebound in 2017

Hungary´s GDP growth is expected to slow down to 1.8% in 2016, mainly due to lower public investment (lower disbursement of EU funds). That said, economic growth is sustained by increasing private consumption (up 3.7%). Household consumption growth is driven by wage increases, lower taxes and lower unemployment (down to 6% in 2016). The rising employment rate is mainly due to hiring in the private sector and expanding public work schemes.

In 2016 export growth is expected to slow down, but still remains robust (up 5.2%). The current account is expected to remain in surplus in 2016 and 2017.

In 2017, growth is forecast to increase by 2.6% as private and public investments will pick up again, while private consumption remains solid. Risks stem from the possibility of eurozone rebound coming to an end and a cooling down of world trade, which would hurt Hungarian export growth.

In H1 of 2016 the central bank of Hungary decreased the benchmark interest rate twice, to 0.9% in July 2016, in order to counter decelerating inflation and to spur economic growth. After deflations in 2014 and 2015, (mainly due to regulated household energy prices) consumer prices are expected to grow again, by 0.9% in 2016 and 2.1% in 2017.

The government has proven committed to fiscal discipline so far. Containing the budget deficit within 3% of GDP is a top priority of the administration in order to avoid EU sanctions. However, since 2010 the government has been using unorthodox ways to balance the budget, most notably extraordinary taxes on banks and utilities. The budget deficit is forecast to remain below the 3% threshold in 2016 (2.6% of GDP) and 2017 (2.7% of GDP).

High debt level as a major weakness

Hungary's major weakness remains its high level of external debt of more than 100% of GDP in 2015. A large share of it is foreign currency denominated, which exacerbates the problem, as a weak forint hurts many Hungarian households and businesses whose loans are denominated in foreign currencies. Therefore, Hungary remains highly vulnerable to international investors sentiment and currency volatility.

Poland

Main import sources (2015, % of total)	
Germany:	28.1 %
China:	7.6 %
Russia:	7.3 %
The Netherlands:	6.0 %
Italy:	5.3 %

Main export markets (2015, % of total)	
Germany:	27.3 %
United Kingdom:	6.8 %
Czech Republic:	6.6 %
France:	5.6 %
Italy:	4.8 %

Key indicators	2013	2014	2015	2016*	2017*
Real GDP (y-on-y, % change)	1.3	3.3	3.6	3.4	3.1
Consumer price (y-on-y, % change)	0.9	-0.1	-0.9	-0.3	1.9
Real private consumption (y-on-y, % change)	0.2	2.4	3.1	3.6	3.5
Retail sales (y-on-y, % change)	1.7	3.2	2.4	3.8	3.9
Industrial production (y-on-y, % change)	2.3	3.4	4.8	3.8	4.1
Unemployment rate (%)	10.3	9.0	7.5	6.4	6.5
Real fixed investment (y-on-y, % change)	-1.1	10.0	6.1	1.5	2.8
Export of goods and non-factor services (y-on-y, % change)	6.1	6.4	6.8	5.1	3.8
Current account/GDP (%)	-1.3	-1.3	-0.2	-1.0	-1.3
Fiscal balance (% of GDP)	-4.0	-3.3	-2.6	-3.2	-3.3

* forecast   Source: IHS

Poland industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

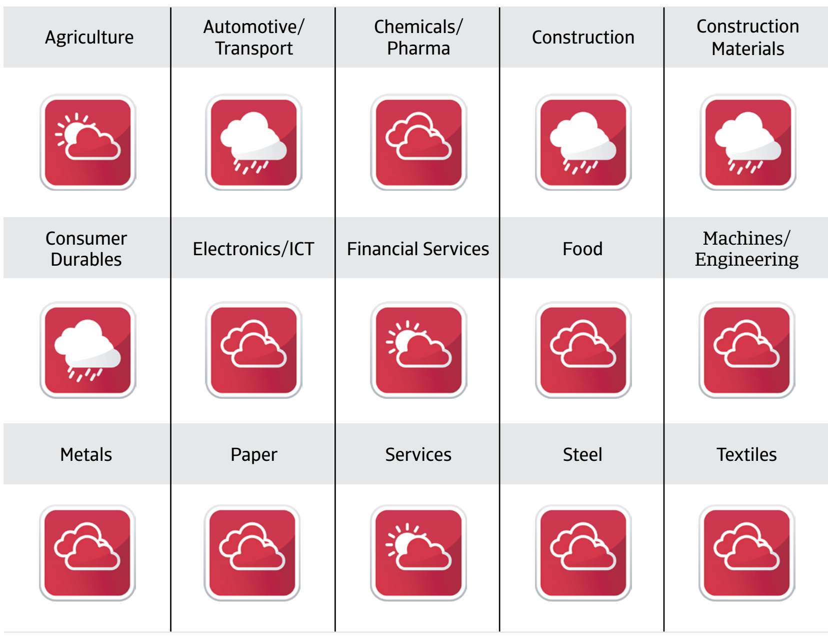
Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.

Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.

Bleak:
The cedit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

September 2016



Political situation

Head of state:
President Andrzej Duda
(since August 2015)

Head of government:
Prime Minister Beata Szydlo
(since November 2015)

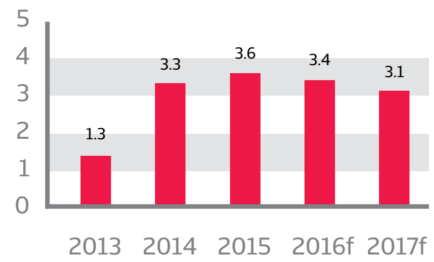
Population:
38.0 million

The new administration launched some controversial initiatives

The national-conservative Law and Justice (PiS) party prevailed in the October 2015 elections gaining 235 out of 460 seats in parliament. Immediately after its inauguration the new PiS-administration launched some controversial policy initiatives, such as trying to reorganise Poland's constitutional court, seizing direct control of the state broadcasting channels and the security services, and purging the heads of state-owned companies. This has triggered mass demonstrations in Poland, while the European Union is reviewing whether those moves violate EU statutes.

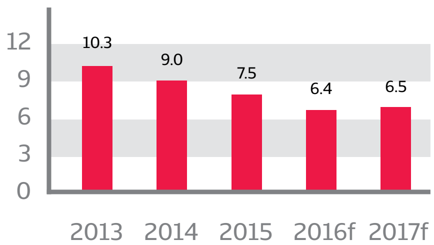
Economic situation

Real GDP growth (y-on-y, % change)



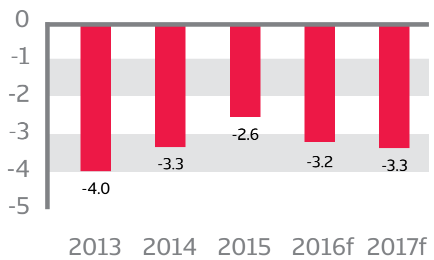
Source: IHS

Unemployment rate (y-on-y, % change)



Source: IHS

Fiscal balance (% of GDP)



Source: IHS

Economic growth above eurozone average

In recent years Poland's economy grew at a substantially faster rate than the eurozone, and is expected to do so in the coming two years. In 2015 Polish GDP increased 3.6%, mainly driven by private consumption, investment and exports. The Polish economy is expected to continue to benefit from low energy prices and the rebound in the eurozone in 2016, with GDP expected to grow 3.4%, based on robust domestic demand and increasing exports. In 2017 the economy is expected to grow 3.1%.

Household consumption increase is driven by low energy prices as well as rising wages and employment. Consumer prices are expected to remain deflated in 2016. Demand for new jobs is growing and is highest in the industrial production and the education segments. Unemployment is expected to decrease further, to 6.5% in 2017.

Poland´s fiscal deficit has been below the 3% Maastricht threshold since 2009, but is forecast to increase above 3% in 2016 and 2017, despite an additional tax on banks and large retail businesses. The increase is due to higher military spending as a reaction to Russia's intervention in Ukraine, higher social spending and a reduction in the standard VAT rate.

The current account deficit decreased to 0.1% of GDP in 2015, but is expected to increase again in 2016 and 2017 (to more than 1% of GDP) due to higher domestic demand boosting imports. During the 2008/2009 credit crisis, the Polish currency depreciated sharply against the euro. However, since then, the exchange rate has been relatively stable.

Exposed to negative "Brexit" impacts

Like its Eastern European peers, Poland is susceptible to a potential end of the current eurozone recovery. At the same time, domestic political woes and any adverse economic policies by the new PiS government could dampen investor sentiment in times of increased volatility and insecurity. In Central Europe, Poland's economy looks most vulnerable to the financial and economic fallout brought by the United Kingdom's vote to leave the EU. Annual remittances from Poles living abroad amount to about EUR 4 billion, a large share of it from the UK. In the longer term, an EU departure of the United Kingdom could impact EU structural funds, which play a major role for Poland´s economic progress. The UK is also Poland´s second largest export destination after Germany.

Atradius
Managing risk, enabling trade

Russia

Main import sources (2015, % of total)	
China:	19.2 %
Germany:	11.2 %
USA:	6.4 %
Belarus:	4.8 %
Italy:	4.6 %

Main export markets (2015, % of total)	
The Netherlands:	11.9 %
China:	8.3 %
Germany:	7.4 %
Italy:	6.5 %
Turkey:	5.6 %

Key indicators	2013	2014	2015	2016*	2017*
Real GDP (y-on-y, % change)	1.3	0.6	-3.7	-1.8	0.3
Consumer price (y-on-y, % change)	6.8	7.8	15.5	7.1	5.6
Real private consumption (y-on-y, % change)	4.4	1.5	-9.4	-5.3	1.6
Retail sales (y-on-y, % change)	3.7	3.1	-9.3	-2.2	2.6
Industrial production (y-on-y, % change)	0.4	1.7	-3.3	-1.3	1.5
Unemployment rate (%)	5.5	5.2	5.6	5.8	5.8
Real fixed investment (y-on-y, % change)	1.3	-2.0	-7.7	-8.7	0.0
Export of goods and non-factor services (y-on-y, % change)	4.5	0.7	3.5	-1.9	2.7
Current account/GDP (%)	0.1	-1.3	5.2	1.3	0.2
Fiscal balance (% of GDP)	-1.2	-0.9	-3.9	-4.8	-5.4

* forecast Source: IHS

Russia industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.

Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.

Bleak:
The cedit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

September 2016

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	**Electronics/ICT**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state:
President Vladimir Putin
(since May 2012)

Head of government:
Prime Minister Dmitry Medvedev
(since May 2012)

Form of government:
Government formed by the Party United Russia and non-partisan technocrats

Population:
144.1 million

Domestic politics: continued stability - but at the expense of democracy

The popular standing of President Putin increased significantly since the outbreak of the Ukraine crisis and the annexation of the Crimea, and approval ratings remain high, despite the current economic recession. Nationalistic sentiment has risen, supported by aggressive propaganda through the state-controlled media. Playing the nationalist card, especially in relation to the EU and the US, appears to be the key to keeping approval ratings up.

Any opposition has been marginalised by a hardening of authoritarianism: hardliners have effectively been given license to attack liberals and crack down further on independent media and non-governmental organisations.
The upcoming parliamentary elections in September 2016 will be tightly managed and will most likely keep the current government in control.

Relationships with the EU and the US have deteriorated

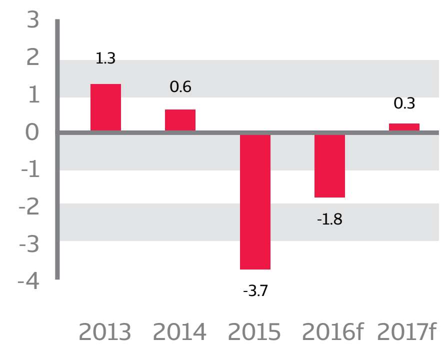
Since the outbreak of the Ukraine crisis in early 2014, the relationships between Russia and the EU and US have gradually deteriorated. Russia´s intervention in the civil war in Syria added another area of conflict to the already strained relationships.

Moscow´s annexation of Crimea in March and its tacit support of separatist forces in Eastern Ukraine triggered several rounds of sanctions from the EU and the US, mainly in the form of a freeze on assets, travel bans on Russian and Crimean individuals, long-term financing limitations restricting access to EU/US capital markets for major Russian banks and some oil and defense businesses. Restrictions include certain types of products exported to Russia, including dual-use technologies and high-tech equipment for the oil industry. Russia itself imposed retaliatory sanctions on the import of food and agricultural products from the EU, the US, Australia, Canada and Norway.

The EU/US sanctions may have a very significant impact on the Russian economy in the longer term. In particular, they will influence the refinancing capacity of major domestic corporations and banks.

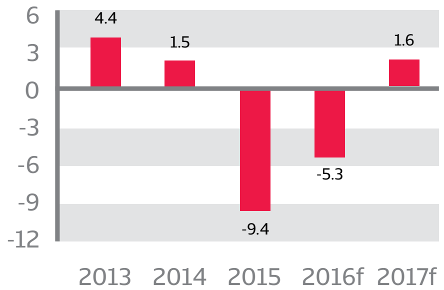
Economic situation

Real GDP growth
(y-on-y, % change)



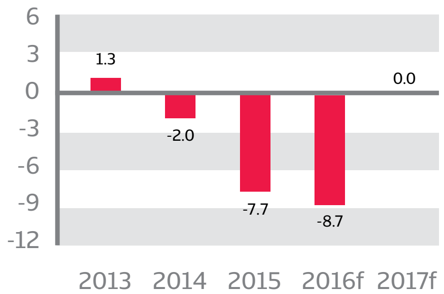
Sources: IHS

Real private consumption
(y-on-y, % change)



Sources: IHS

Real fixed investment
(y-on-y, % change)



Sources: IHS

The contraction continues in 2016

The Russian economy contracted 3.7% in 2015, as the persistently low oil prices continued to negatively affect export revenues. Both investments and private consumption recorded sharp decreases of 9.4% and 7.7% respectively. Only net exports contributed positively to GDP, as imports decreased sharply (down 28% year-on-year) with domestic demand contraction.

Consumer price inflation increased to more than 15%, which was also due to the on-going sanctions that Russia has imposed on EU imports. This, together with the rouble depreciation had a damaging impact on household consumption. That said, unemployment is set to increase only modestly in 2016, as the Russian state supports firms and directs them if needed. Firms simply often impose wage cuts rather than mass redundancies to cope with demand decline. This serves to avoid potential social unrest.

The economic contraction is set to continue in 2016, as oil prices are expected to remain low for the time being. GDP is forecast to shrink 1.8% in 2016, with investments and private consumption showing further contraction and inflation remaining high. Only in 2017 a very modest rebound of 0.3% GDP is expected.

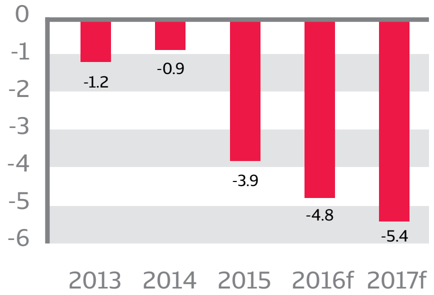
Corporate foreign debt remains an issue

In terms of exports, Russian corporate foreign debt is one of the highest among emerging economies. This is compounded not only by high interest rates, pressure on capital flows and the rouble, but also international sanctions that severely hinder foreign (re)financing. Therefore, despite the relatively deep coffers of the Russian state, Russian foreign corporate debt is indeed an issue to be watched carefully. Most vulnerable in Russia are corporates operating in the construction and real estate sectors, which generate incomes denominated mainly in rouble, but used to rely on foreign currency funding, and companies in the transport sector (particularly airlines and automobiles).

Russia´s short-term economic policy in the current recession is rather prudent. Despite a very low public debt of 13% of GDP and pressure from the low oil prices on the budget, the government deficit is kept within acceptable margins.

The central bank pursues a tight monetary policy in order to combat inflation and inflation expectations, keeping rather high interest rates of more than 10% in place, which may be eased if inflation comes down with the expected gradual oil price climb. At the same time, the central bank allows the rouble to float. This has an impact on inflation if the currency depreciates, but also acts as a shock absorber for the current account, which is expected to remain in surplus in 2016 and 2017. At the same time the fairly large international reserve position of Russia hardly erodes as capital outflows are contained.

Fiscal balance (% of GDP)



Sources: IHS

Major structural weaknesses remain

That said, the long-term prospect for higher and sustainable growth remains subdued. The Russian business climate is plagued by uncertainty regarding property rights, a weak transport infrastructure and lack of competition in goods and services markets. The authorities failed to seize the opportunity during the windfall years to strengthen Russia's economic structure and enhance its non-oil potential by prudently investing high oil revenues in other industries to diversify the economy away from the dominant oil and gas sector.

There is an underlying deterrent for investments, which are badly needed to modernise the energy sector and help to diversify the economy. Even before the outbreak of the Ukrainian crisis, the investment level was too low and foreign direct investment too limited, partly due to due to an unfriendly business climate and a firm grip of the state on large parts of the economy. This is now exacerbated by the international sanctions imposed by the EU and the US that aim to prevent technology transfers and financing to Russian firms, especially in the energy and military sectors.

Atradius
Managing risk, enabling trade

Slovakia

Main import sources (2015, % of total)	
Germany:	20.5 %
Czech Republic:	18.4 %
Austria:	9.7 %
Hungary:	6.7 %
Poland:	6.6 %

Main export markets (2015, % of total)	
Germany:	22.7 %
Czech Republic:	12.5 %
Poland:	8.5 %
Austria:	5.7 %
Hungary:	5.7 %

Key indicators	2013	2014	2015	2016*	2017*
Real GDP (y-on-y, % change)	1.4	2.5	3.6	3.2	3.3
Consumer price (y-on-y, % change)	1.5	-0.1	-0.3	0.0	2.2
Real private consumption (y-on-y, % change)	-0.8	2.3	2.4	3.0	3.0
Retail sales (y-on-y, % change)	0.4	3.5	1.7	2.5	2.6
Industrial production (y-on-y, % change)	3.9	8.6	7.0	5.0	5.1
Unemployment rate (%)	14.2	13.2	11.5	10.1	8.8
Real fixed investment (y-on-y, % change)	-1.1	3.5	14.0	3.2	4.4
Export of goods and non-factor services (y-on-y, % change)	6.2	3.6	7.0	3.3	3.5
Current account/GDP (%)	2.3	0.1	-1.3	-1.4	0.1
Fiscal balance (% of GDP)	-2.7	-2.7	-2.9	-1.9	-1.5

* forecast Source: IHS

Slovakia industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.

Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.

Bleak:
The cedit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

September 2016

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
				
Metals	Paper	Services	Steel	Textiles
				

Atradius
Managing risk, enabling trade

Political situation

Head of state:
President Andrej Kiska
(since June 2014)

Head of government:
Prime Minister Robert Fico
(since April 2012)

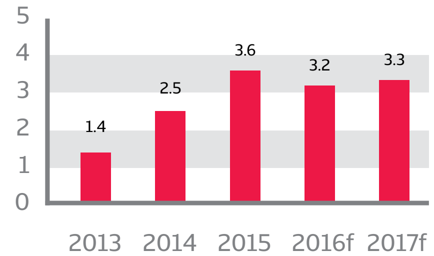
Population:
5.4 million

Ruling party lost its absolute majority in the March 2016 elections

In the March 2016 general elections, which were mainly focused on the European migrant crisis, the ruling social-democratic Smer-SD party lost more than 15% and its absolute majority in parliament, mainly at the expense of nationalistic and right-wing parties. Despite the loss, the Smer-SD remained the largest party in parliament and formed a coalition government with the nationalistic SNS party, the liberal conservative Most-Híd and the centre-right Siet´(network) party.

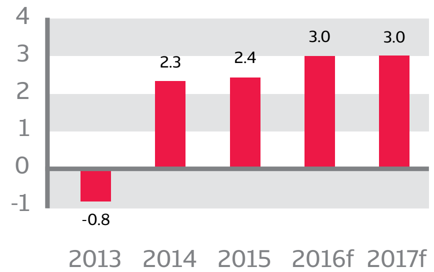
Economic situation

Real GDP growth (y-on-y, % change)



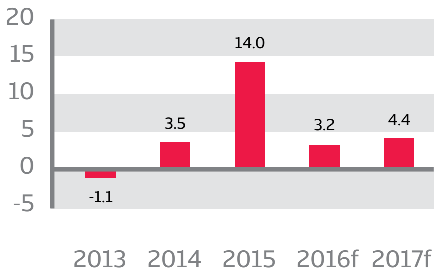
Sources: IHS

Real private consumption (y-on-y, % change)



Sources: IHS

Real fixed investment (y-on-y, % change)



Sources: IHS

Growth forecast to remain above 3% in 2016 and 2017

The Slovakian economy grew 3.6% in 2015, driven by consumer spending, business investment and government consumption. Growth is expected to remain above 3% in 2016 and 2017 (3.2% and 3.3% respectively), driven by continued robust domestic demand and exports to the eurozone.

Private consumption is forecast to continue to be one of the primary drivers of economic expansion. The labour market shows strong improvement, with the unemployment rate expected to decrease from 14.2% in 2013 to 10.1% in 2016 and 8.8% in 2017, mainly due to improving domestic economic conditions.

Government finances are stable with the budget deficit being kept below 3% of GDP since 2013. The budget deficit is expected to decrease to 1.9% in 2016 and 1.5% in 2017. Long-term government bond yields have decreased rapidly over the past four years, reducing debt servicing costs for the government.

Slovakia´s external economic position is solid. Exports and imports are well balanced and both growing. The current account deficit is expected to increase slightly in 2016, but is forecast to turn into a surplus in 2017. At the same time, Slovakia´s foreign debt level is low.

Highly dependent on (automotive) exports

As the Slovakian economy is heavily reliant on industrial exports, (especially automotive related) the eurozone and Germany in particular, it remains very vulnerable to eurozone downturns and/or adverse developments in the automotive sector (e.g. the Volkswagen emissions-rigging scandal).

Turkey

Main import sources (2015, % of total)	
China:	12.0 %
Germany:	10.3 %
Russia:	9.9 %
USA:	5.4 %
Italy:	5.1 %

Main export markets (2015, % of total)	
Germany:	9.3 %
United Kingdom:	7.3 %
Iraq:	6.0 %
Italy:	4.8 %
France:	4.5 %

Key indicators	2013	2014	2015	2016*	2017*
Real GDP growth (y-on-y, % change)	4.1	3.0	3.9	3.0	3.3
Consumer price (y-on-y, % change)	7.5	8.9	7.7	7.3	7.0
Real private consumption (y-on-y, % change)	5.1	1.5	4.5	4.0	2.7
Industrial production (y-on-y, % change)	3.0	3.7	3.2	3.7	2.8
Unemployment rate (%)	9.0	10.0	10.3	10.2	11.1
Real fixed investment (y-on-y, % change)	4.2	-1.3	3.5	-2.7	2.5
Export of goods and non-factor services (y-on-y, % change)	-0.1	7.4	-0.9	1.7	2.0
Current account/GDP (%)	-7.9	-5.7	-4.5	-5.0	-5.2
Fiscal balance (% of GDP)	-1.5	-1.0	-1.2	-2.5	-2.4

* forecast   Sources: IHS

Turkey industries performance outlook


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.


Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.


Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.


Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.


Bleak:
The cedit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

September 2016

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
				
Metals	Paper	Services	Steel	Textiles
				

Political situation

Head of state:
President Recep Tayyip Erdogan (since August 2014)

Head of government:
Prime Minister Binali Yildirim (since May 2016)

Nature of regime:
Republican parliamentary democracy and secular state. The armed forces´ political influence has been curbed.

Population:
77.7 million

A massive purge underway after the failed coup

After the failed coup attempt on July 15, 2016 the Turkish government declared a state of emergency and started a massive crackdown to purge officials alleged for suspected links to the coup and to Fethullah Gülen, a Muslim cleric exiled in the US. More than 20,000 military, policemen, judges, prosecutors and officials were detained, about 60,000 officials and civil servants were suspended. Additionally, many media outlets were closed and journalists arrested. Meanwhile, President Erdogan extended the purge to Turkish businesses with suspected links to the Gülen movement.

Already before the failed coup in July 2016 increasing government actions to curb the independence of the judiciary and political interference in the media have raised domestic and international concerns. Those concerns have grown, especially in the US and the EU, and Turkey´s relationship with both has deteriorated since the failed coup.

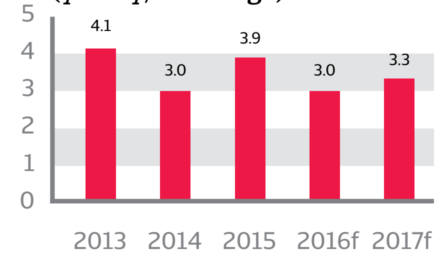
Heightened conflict in the region affects Turkish security

Since 2014, geopolitical risks have significantly increased. The south-eastern part of the country has been affected by a massive inflow of refugees from Syria and fighting close to the border. This region is also severely affected by the flare-up of fighting between Turkish forces and the Kurdistan Workers´ Party (PKK), after the government ended a two-year ceasefire and terminated informal peace talks with the PKK. At the same time, several IS-led suicide bomb attacks have hit several cities, including Istanbul and its main airport.

Given the increased political risks due to the turbulent domestic political situation, the new escalation of the conflict with the PKK, terrorist attacks and more strained relationships with the EU and the US, economic repercussions in the mid- and long-term cannot be ruled out., e.g. a decrease in foreign investments and consumer spending. This could negatively impact economic growth, exchange rate stability, external funding opportunities, refinancing and insolvencies.

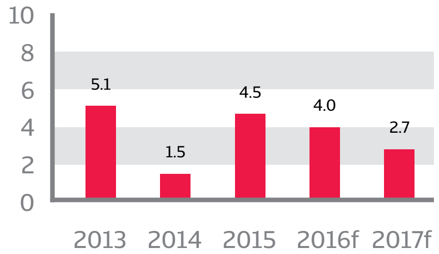
Economic situation

Real GDP growth
(y-on-y, % change)



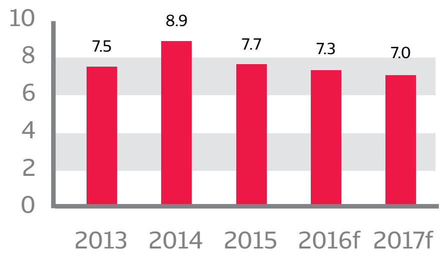
Sources: IHS

Real private consumption
(y-on-y, % change)



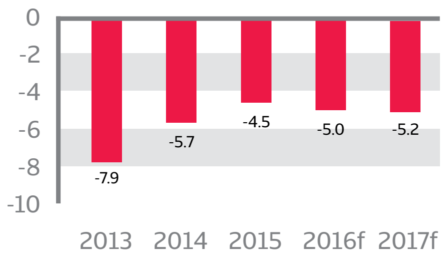
Sources: IHS

Consumer price (% of GDP)



Sources: IHS

Current account (% of GDP)



Sources: IHS

Structural weaknesses have re-emerged

In the last decade, Turkey has made impressive economic progress. With political stability since 2002, when the AKP came to power, the country has experienced GDP growth exceeding the European average, while real per capita income has increased markedly. A fast growing population of more than 75 million and rising prosperity have turned Turkey into one of the most prominent emerging markets.

However, since 2013 Turkey's structural economic weaknesses have resurfaced: among them its stubbornly high inflation, large gross external financing needs, heavy reliance on volatile portfolio capital inflows and relatively weak international liquidity and currency volatility – now coupled with sharply increased political risks.

Slowdown of growth expected in 2016 and 2017

In 2016 and 2017 Turkish GDP growth is expected to decrease to about 3% due to lower private consumption and contracting investment. The deteriorated internal security situation increased concerns about the independence of the central bank and is negatively impacting business and investor sentiment, leading to delays in new investment decisions. Tourism is widely affected by internal security concerns.

Being a large oil importer, the Turkish economy should profit from lower oil prices, which should help to boost private demand, lower inflation and narrow its persistently large current account deficit - a result of low savings and high investment.

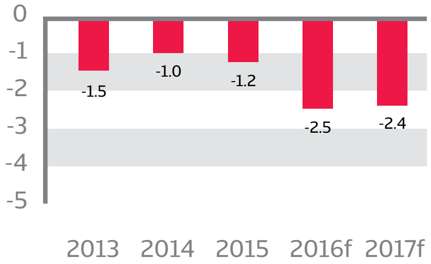
However, inflation is expected to remain high in 2016 and 2017, at around 7%, well above the official 5% medium-term target, as the strong lira depreciation (about 20% against the USD in 2015) has offset the disinflationary effects of low oil prices.

High dependence on capital inflow is a major risk

The current account deficit is expected to remain above 5% of GDP in 2016 and 2017, also due to decreased tourism. Increasing foreign debt and substantial capital imports (foreign direct investment and portfolio capital) are needed to cover the current account deficits. However, since much of those deficits are financed from volatile short term capital inflows and sensitive portfolio investment, this makes the economy very vulnerable to any negative shake-ups in financial markets, which could trigger a massive capital withdrawal and could also lead to more fluctuations in the lira exchange rate. Triggers for such shifts are not only external, but also internal and particularly related to the security situation and concerns about monetary policy credibility. Turkey´s foreign debt has sharply increased in recent years, from 38% of GDP in 2008 to 56% at the end of 2015, with more than 90% denominated in foreign currency.

That said, shock absorbing capacity is underpinned by sound government finances, a healthy banking system and still good access to international financial markets.

Fiscal balance (% of GDP)



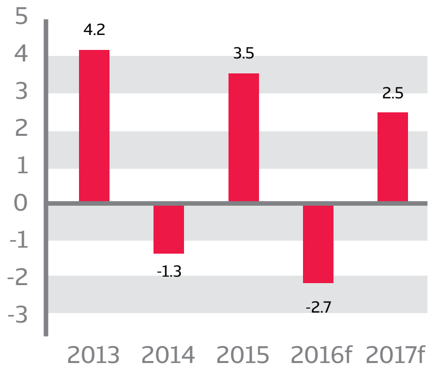
Sources: IHS

Increased credit risk in the corporate sector

The rise of corporate debt in Turkey significantly outpaced economic growth in 2015. As a result, the corporate debt-to-GDP ratio more than doubled, reaching 57% in Q4 of 2015. Although the level is still moderate, the debt structure is concerning, with more than a third of this debt financed externally. Turkish corporates, particularly in the energy sector, have extensively borrowed in foreign currency from local banks, reflecting relatively high dollarization in the Turkish banking system. The exposure of Turkish corporates to foreign currency risk is thus higher than external debt figures suggest. The most vulnerable sectors in Turkey are energy, construction materials, steel, transport (airlines) and chemicals. Smaller sized firms with earnings mostly in local currency that are not sufficiently hedged are most at risk.

So far, Turkish corporates have good access to international capital markets with rollover rates of corporate external debt remaining above 100% and maturities being lengthened. The Turkish central bank has also recently taken measures to reduce dollarization of domestic lending and Turkish corporates have improved their maturity profile.

Real fixed investment (y-on-y, % change)



Sources: IHS

Structural constraints for higher long-term growth remain

The future earnings capacity of the Turkish economy is constrained by macroeconomic imbalances related to high credit growth, high inflation and a large external deficit, coupled with structural issues related to its low savings rate and weaknesses in competitiveness, limiting FDI inflow.
The investment climate is also hampered by a weak judicial system and an inflexible labour market. Moves to privatise state banks and the power sector are also proceeding too slowly. Without structural reforms to raise savings, reduce dependency on energy imports and improve the investment climate, Turkey´s potential growth rate will decrease to 3%-3.5% per annum. However, no major structural reforms are expected in the current political situation.

If you've found this country report useful, why not visit our website www.atradius.com, where you'll find many more Atradius publications focusing on the global economy, including more country reports, industry analysis, advice on credit management and essays on current business issues.

On Twitter? Follow @Atradius or search #countryreports to stay up to date with the latest edition.

Connect with Atradius on Social Media

@atradius Atradius atradius

Disclaimer

This report is provided for information purposes only and is not intended as a recommendation or advice as to particular transactions, investments or strategies in any way to any reader. Readers must make their own independent decisions, commercial or otherwise, regarding the information provided. While we have made every attempt to ensure that the information contained in this report has been obtained from reliable sources, Atradius is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this report is provided 'as is', with no guarantee of completeness, accuracy, timeliness or of the results obtained from its use, and without warranty of any kind, express or implied. In no event will Atradius, its related partnerships or corporations, or the partners, agents or employees thereof, be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any consequential, special or similar damages, even if advised of the possibility of such damages.

Atradius N.V.
David Ricardostraat 1– 1066 JS Amsterdam
Postbus 8982 – 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111
info@atradius.com
www.atradius.com