



## Quarterly Risk Outlook (3<sup>rd</sup> quarter 2024)

Sri Lanka Export Credit Insurance Corporation

Slovakia - Moderate growth, driven by private consumption and public investment



Slovakia is an attractive FDI destination due to a relatively low-cost yet skilled labor force and favorable geographic location in the heart of Central Europe. Slovakia has experienced sustained and steady GDP growth since its integration into the European Union in 2004, except for the financial crisis of 2008-2009, the Eurozone crisis of 2011-2012, and the COVID-19 pandemic. The economic growth outlook for 2024 and 2025 stands at 2.3% and 2.6% respectively. Real wage hikes are expected to bolster private consumption, offering an additional stimulus. Furthermore, the absorption of EU funds is anticipated to significantly contribute to investment growth (EU Commission).

In 2024, the inflation rate is projected to decrease to 3.5%, largely due to the anticipated moderation in energy and consumer food prices. However, the persistent effects of energy prices and a constrained labor market are expected to exert upward pressure on prices within the service sector. By 2025, inflation is forecasted to decline further to 2.6%. In 2024, the inflation rate is projected to decrease to 3.5%, largely due to the anticipated moderation in energy and consumer food prices. However, the persistent effects of energy prices and a constrained labor market are expected to exert upward pressure on prices within the service sector.

## Finland – The Finnish GDP is experience an upturn in 2024



Finland is a Northern European nation bordering Sweden, Norway and Russia. Its capital, Helsinki occupies a peninsula and surrounding islands in Baltic Sea. Despite being vulnerable to the international conjuncture, Finland is often cited as a model example for its economic performance. The Finnish GDP is expected to experience an upturn in 2024, propelled by a gradual recovery in private consumption and investment, with a specific focus on advancing the green transition. Additionally, the construction sector is projected to recommence its growth in the latter part of 2024 and achieve full recovery by 2025, driven by increased private investment and a more favorable financial environment.

Finland's GDP per capita – estimated at USD 59,869 (PPP) in 2023 by the IMF - is among the highest in the world and higher than the EU-27 average, allowing the country to offer a high living standard. Agriculture represents 2.3% of the finished GDP and employs around 4% of the population (World Bank, latest data available). Due to the unfavorable climate, agriculture developments is limited to the maintenance of a certain level of self-sufficiency in basic products. Moreover, Finland's accession to the EU has further accelerated the process of restructuring and downsizing of the agriculture sector.

Industry accounts for 25.6% of GDP, employing roughly 21% of the active population. Forestry is a traditionally well-developed sector for Finland as the country exports a rich variety of goods, ranging from simple wooden products to high-tech tags, labels, paper, cardboard and packaging. Finland is a highly industrialized country whose economy relies heavily on foreign trade, which represented 93% of its GDP in 2022 (World Bank - latest data available).

Hong Kong - Looking forward, in 2024 Hong Kong's export of goods may face ongoing challenges.



Hong Kong is a special administrative region of the People's Republic of China. With 7.4 million residents of various nationalities in a 1,104-aquare-kilometer territory, Hong Kong is one of the most densely populated territories in the world. As the tenth-largest trading power and the third-largest financial centre in the world in 2023, Hong Kong is often cited as a model of liberal economics. However, the economy has been experiencing a slowdown in recent years, due to the COVID-19 pandemic, looking forward, in 2024, Hong Kong's export of goods may face ongoing challenges due to the challenging external environment.

However, if advanced economies follow through with anticipated interest rate cuts, the situation could stabilize later in the year. Moreover, visitor arrivals are expected to rise as handling capacity improves, further bolstered by government initiatives promoting mega events. Combined with various governmental measures, increasing household income is poised to sustain private consumption.

The IMF expects growth to hover around 2.9% over the forecast horizon. During FY22 (April 2022 to March 2023), Hong Kong's fiscal situation weakened primarily due to heightened public spending linked to the pandemic. Nevertheless, it anticipates a reduction in budget deficit for 2023/24 as support measures for households and businesses, such as unemployment assistance, government-backed business loans, and direct cash transfers to households, are phased out.

Despite ongoing efforts to address quality of life concerns, particularly housing issues, the government aims to trim total expenditure by 6% to HKD 761 billion. Official figures indicate that between April and October 2023, the government's expenditures totaled HKD 413.9 billion, while its earnings amounted to HKD 174.4 billion.

Factoring in a profit of HKD 66.6 billion from the issuance of green bonds under a government-led initiative to foster green finance, the cumulative deficit stood at HKD 172.9 billion.

Although increasing, Hong Kong's debt-to-GDP ratio is one of the lowest in the world: it was estimated at 6.1% in 2023, with an expected uptick to 7.6% by 2025 (IMF).



South Korea, a developed economy renowned for dynamic export sector, has weathered various economic challenges while maintaining its growth trajectory. In 2023, GDP growth moderated to 1.4%, down from 2.6 in 2022, primarily due to factors such as elevated interest rates and energy prices, which dampened private consumption and investment. Despite these obstacles, the semiconductor sector showed signs of recovery, hinting at a potential economic resurgence. Projections indicate a rebound in growth to 2.3% in 2024 and 2.1% in 2025, driven by renewed export and investment activities, especially in semiconductors. These figures underscore South Korea's ability to adapt and thrive amid changing global economic landscapes. The export-oriented policies of South Korea are one of the most important factors in its economic success. The country was the world's sixth-largest exporter of goods and the eighth-largest importer of goods in 2022 (WTO), with trade accounting for 97% of its GDP (World Bank).

South Korea is heavily integrated into international trade and finance and is subsequently highly vulnerable to external influences, especially from China, which is its main trade partner (22.8% of total exports in 2022), followed by the United States (16.1%), Vietnam (8.9%), Japan (4.5%) and Hong Kong (4%). Its main suppliers are China (21.1%), the United States (11.2%).

The service sector is the largest and fastest economic sector, accounting for 57% of GDP and employing 70.2% of the active population (World Bank), especially department stores, store chains and supermarkets. Tourism is one of the leading sectors.

## Peru – Inflation declines to lowest level since April 2021.



Located on the western coast of South America, Peru boasts the sixth-largest economy in Latin America, with a GDP of around USD 240 billion in 2022 and a population of 34 million. It is classified as an upper-middle-income economy by the World Bank, though GDP per capita is still below the Latin America average. Inflation came in at 2.4% in April, which was down from March's 3.0%. April's figure marked the weakest inflation rate since April 2021. The decline was broad-based, with lower price pressures recorded for recreation and entertainment, food and beverages, and transport and communication. Moreover, prices for clothing grew at a more subdued pace. In addition, the trend pointed down, with annual average inflation coming in at 4.5% in April (March: 4.9%). Meanwhile, core inflation fell to 3.7% in April, from March's 4.0%. Lastly, consumer prices fell 0.05% in April over the previous month, swinging from the 1.01% increase seen in March. April's result marked the weakest reading since November 2023.

According to IMF estimates, the country's unemployment rate is expected to remain stable in 2024 and 2025, at 7.4% and 7.3%, respectively. Peru is member of the WTO and very open to international trade, which represent 58% of GDP. Data from the Banco Central de Reserva del Peru pointed to an inflation rate averaging 3% in 2023 (compared to 8.5% one year earlier), with rate gradually returning towards the 2% target by 2025.

## Italy - High inflation and difficult financing conditions owing to rising interest rates.



Italy, a European country with a long Mediterranean coastline, has left a powerful mark on western culture and cuisine. Its capital, Rome, is home to the Vatican as well as landmark art and ancient ruins. The Italian economy proved resilient in 2023, growing 0.9% despite an unfavorable International environment, persistently high inflation and difficult financing conditions owing To rising interest rates. But challenges remain and the outlook for 2024 is still mixed, with growth expected at 0.8%. Italy's growth prospects are undermined by global economic uncertainties, with the slowdown in the world's two largest economies, as well as political uncertainties, with several key elections on the horizon.

But encouraging signs are emerging, particularly in industry. And although its effects are still being felt, the inflationary period is behind us now, the annual rate currently standing at 1.4%, paving the way for an easing of monetary policy. Investment and construction continue to be bolstered by an overhang effect and could benefit from an upside risk linked to stimulus plan support, even though budgetary policy is constrained by substantial imbalances in public finances.

Household consumption remains the big unknown in this scenario. Any recovery remains uncertain despite a handful positive indicators in the second half of the year, the impact of which will be felt more in 2025, with a growth forecast of 0.9%.