

Cause for concern?

The top 10 risks to the global economy

A report by The Economist Intelligence Unit



The world leader in global business intelligence

The Economist Intelligence Unit (The EIU) is the research and analysis division of The Economist Group, the sister company to The Economist newspaper. Created in 1946, we have over 70 years' experience in helping businesses, financial firms and governments to understand how the world is changing and how that creates opportunities to be seized and risks to be managed.

Given that many of the issues facing the world have an international (if not global) dimension, The EIU is ideally positioned to be commentator, interpreter and forecaster on the phenomenon of globalisation as it gathers pace and impact.

EIU subscription services

The world's leading organisations rely on our subscription services for data, analysis and forecasts to keep them informed about what is happening around the world. We specialise in:

- **Country Analysis:** Access to regular, detailed country-specific economic and political forecasts, as well as assessments of the business and regulatory environments in different markets.
- **Risk Analysis:** Our risk services identify actual and potential threats around the world and help our clients understand the implications for their organisations.
- **Industry Analysis:** Five year forecasts, analysis of key themes and news analysis for six key industries in 60 major economies. These forecasts are based on the latest data and in-depth analysis of industry trends.

EIU Consulting

EIU Consulting is a bespoke service designed to provide solutions specific to our customers' needs. We specialise in these key sectors:

- **Consumer:** Providing data-driven solutions for consumer-facing industries, our management consulting firm, EIU Canback, helps clients to enter new markets and deliver greater success in current markets. **Find out more at: eiu.com/consumer**
- **Healthcare:** Together with our two specialised consultancies, Bazian and Clearstate, The EIU helps healthcare organisations build and maintain successful and sustainable businesses across the healthcare ecosystem. **Find out more at: eiu.com/healthcare**
- **Public Policy:** Trusted by the sector's most influential stakeholders, our global public policy practice provides evidence-based research for policy-makers and stakeholders seeking clear and measurable outcomes. **Find out more at: eiu.com/publicpolicy**

The Economist Corporate Network

The Economist Corporate Network (ECN) is The Economist Group's advisory service for organisational leaders seeking to better understand the economic and business environments of global markets. Delivering independent, thought-provoking content, ECN provides clients with the knowledge, insight, and interaction that support better-informed strategies and decisions.

The Network is part of The Economist Intelligence Unit and is led by experts with in-depth understanding of the geographies and markets they oversee. The Network's membership-based operations cover Asia-Pacific, the Middle East, and Africa. Through a distinctive blend of interactive conferences, specially designed events, C-suite discussions, member briefings, and high-calibre research, The Economist Corporate Network delivers a range of macro (global, regional, national, and territorial) as well as industry-focused analysis on prevailing conditions and forecast trends.

Contents

Executive summary	2
The axis of risk	3
Prolonged fall in major stockmarkets destabilises the global economy	5
Global trade slumps as US steps up protectionist policies	7
Territorial disputes in the South China Sea lead to an outbreak of hostilities	9
Global growth surges above 4%	11
A major cyber-attack cripples corporate and government activities	12
China suffers a disorderly and prolonged economic downturn	13
There is a major military confrontation on the Korean Peninsula	15
Proxy conflicts in the Middle East escalate into direct confrontations that cripple global energy markets	16
Oil prices fall significantly after the OPEC deal to curb production breaks down	17
Multiple countries withdraw from the euro zone	19

Executive summary

There has arguably never been a greater disconnect between the apparent strength of the global economy and the magnitude of geopolitical, financial and operational risks that organisations are facing.

The Economist Intelligence Unit expects momentum in the global economy to remain strong in 2018. The US economy will continue to motor along, the euro area will absorb more of the slack in its labour markets and Chinese consumption, investment and exports will all remain strong. Higher commodity prices will prove a fillip for emerging-market exporters, while a gradual tightening of monetary conditions will not take hold to the extent that it slows growth. Taken together, these factors mean that the global economy is forecast to expand by 3% in 2018, up from a mediocre annual average pace of 2.6% in 2015-16.

Despite the encouraging headline growth figures, the global economy is facing the highest level of risk in years. Indeed, this favourable economic picture appears to come from a completely different world to the one where headlines are dominated by protectionist rhetoric, major territorial disputes, terrorism, surging cyber-crime and even the threat of nuclear war. The global economy has seen periods of high risk before, with threats emanating from the regional and the national level, as well as from state and non-state actors. What is unique about this period of heightened risk, however, is that unlike other periods in recent decades, risks are also originating from the global level, as the US questions its role in the world and partially abdicates from its responsibilities. These moves have signalled the end of the US-led global order and the beginning of a new order. Although the new order will emerge over the next decade, there will be a period of uncertainty as multiple global and regional powers vie for power and influence. For organisations attempting to negotiate these concerns in order to take advantage of the numerous and growing economic opportunities, the stakes are obviously high.

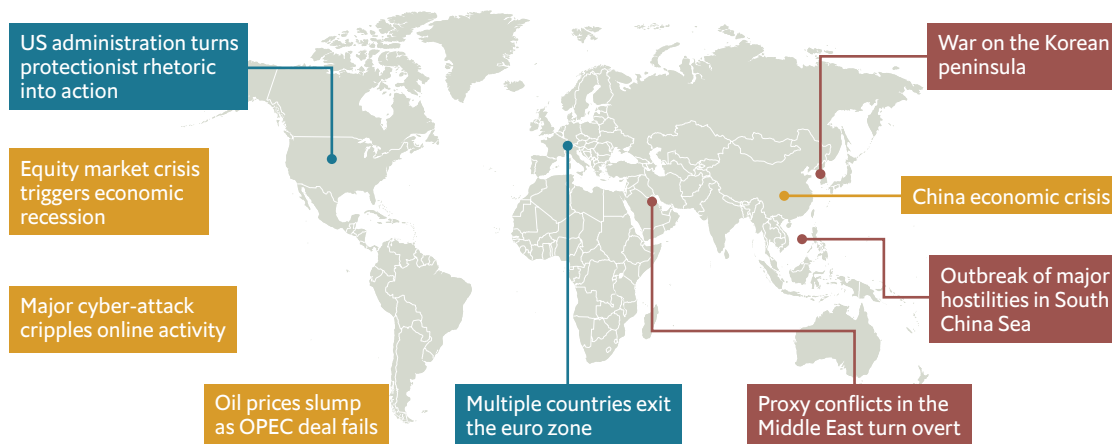
In this report we identify and assess the top ten risks to the global political and economic order. Each of the risks is not only outlined, but also rated in terms of its likelihood and its potential impact on the global economy. This is a small snapshot of our risk quantification capabilities. We also provide operational risk analysis on a country-by-country basis for 180 countries through our **Risk Briefing**. Meanwhile, we provide detailed credit risk assessments on 131 countries via our **Country Risk Service**. Together, these products enable our clients to plot the main threats to their organisations, supply chains and sovereign creditors. We offer robust risk modelling, scenario analysis and daily events scanning for the threats and opportunities that abound in the global economy.

The axis of risk

When measuring risk to the global economy it is of little surprise to see many potential challenges emerging from the world's largest economies. The Economist Intelligence Unit sees a number of risks, with their roots in the US, China and the EU. However, these risks are not limited to those geographies alone, and how they could morph into threats that destabilise large parts of the world is detailed in the following pages. In addition, there are risks that either come from smaller regional hotspots, or are global in nature. Again, we look at how they could evolve in the coming years and what that would mean for transnational organisations.

Global risk scenarios

■ Political ■ Military ■ Financial



CAUSE FOR CONCERN?

THE TOP 10 RISKS TO THE GLOBAL ECONOMY

Top 10 global risks in order of intensity

Rank	Intensity	Scenario
=1	15	Prolonged fall in major stockmarkets destabilises the global economy
=1	15	Global trade slumps as US steps up protectionist policies
=2	12	Territorial disputes in the South China Sea lead to an outbreak of hostilities
=2	12	Global growth surges above 4%
=2	12	A major cyber-attack cripples corporate and government activities
=3	10	China suffers a disorderly and prolonged economic downturn
=3	10	There is a major military confrontation on the Korean Peninsula
=3	10	Proxy conflicts in the Middle East escalate into direct confrontations that cripple global energy markets
4	9	Oil prices fall significantly after the OPEC deal to curb production breaks down
5	5	Multiple countries withdraw from the euro zone

This table highlights The Economist Intelligence Unit's top 10 global risks, ranked in order of intensity. Risk intensity here is measured on a 25-point scale, and is a product of the probability of that risk taking place and the potential impact it would have on the global economy.

Each risk will be analysed in great detail this report, and the probability and impact of each risk will be classified according to the following categories:

Probability

Very high risk = greater than 40% probability that the scenario will occur over the next two years

High = 31-40%

Moderate = 21-30%

Low = 11-20%

Very low = 0-10%

Impact

Very high impact = change to global annual GDP compared with the baseline forecast of 2% or more (increase in GDP for positive scenarios, decrease for negative scenarios)

High = 1-1.9%

Moderate = 0.5-0.9%

Low = 0.2-0.5%

Very low = 0-0.1%

Prolonged fall in major stockmarkets destabilises the global economy

Intensity=15

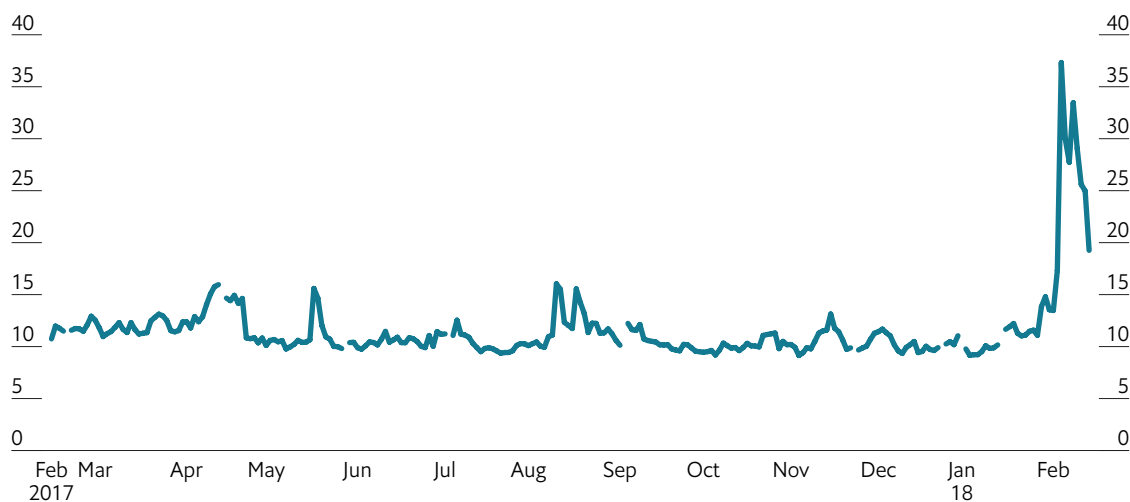
Moderate probability, Very high impact

Introduction

Global stockmarkets entered a period of pronounced volatility in early February after a long bull market, raising some concern that it could be the start of a more pronounced downturn.

A spike in volatility as markets are unnerved

(VIX volatility index measures market expectation of near-term volatility conveyed by stock index option prices)



Source: Chicago Board Options Exchange, CBOE Volatility Index: VIX [VIXCLS], FRED, Federal Reserve Bank of St. Louis.

Analysis

The proximate cause of this recent volatility was a US jobs data release, which showed an acceleration in nominal year-on-year wage growth. This increase gave rise to concerns that wage growth could accelerate quickly in the coming months, forcing the Federal Reserve (Fed, the US central bank) to tighten monetary policy more quickly than expected. Markets have proved to be highly sensitive to speculation over monetary policy owing to uncertainty over how much of the previous bullishness was due to quantitative easing (QE) across much of the developed world, which depressed interest rates, thus making shares more attractive. Although company earnings have been increasing, which would augur well for share price increases, this is in no small part attributable to the ultra-low interest rates at which companies are able to borrow. The true impact of QE on company valuations will become known over the next two years as the Fed gradually unwinds its QE programme and tightens monetary policy. There is a risk that share prices will crash in the US, which would lead to contagion around

CAUSE FOR CONCERN?

THE TOP 10 RISKS TO THE GLOBAL ECONOMY

the world. A prolonged period of decline would pose major risks to our global economic outlook. Households would see a decline in the value of financial assets, triggering lower consumer spending. Meanwhile, the credit channel that funnels loans to the private sector would be impaired; where banks experience sharp declines in their valuations, their ability and willingness to lend to businesses also falls. This effect would be most significant for highly leveraged small and medium-sized enterprises, resulting in lower investment and job creation.

Conclusion

The global economy is moving into a new phase, where more and more central banks will begin to wind down or reverse their loose monetary policy positions in response to vigorous growth rates, giving rise to significant uncertainty.

Global trade slumps as US steps up protectionist policies

Intensity=15

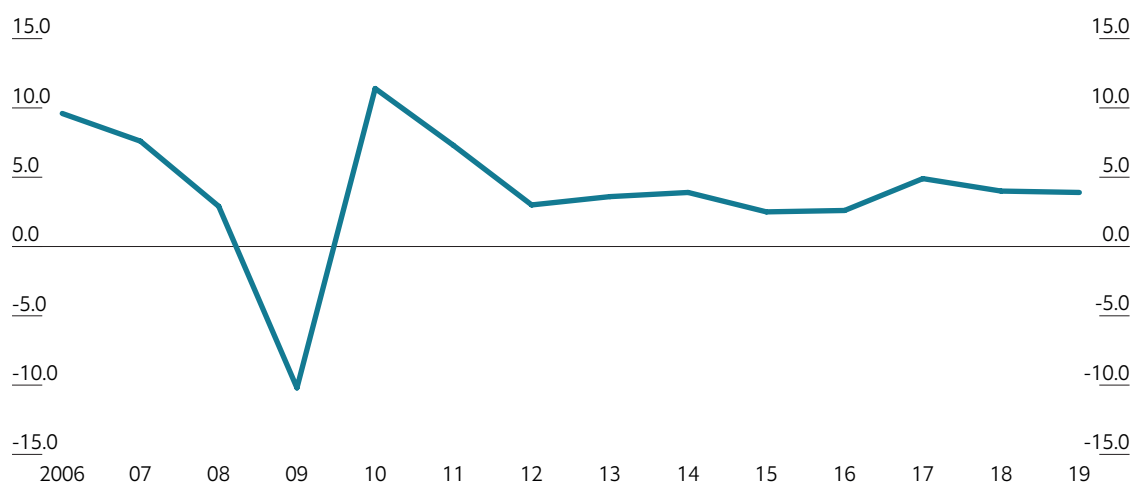
Moderate probability, Very high impact

Introduction

We currently expect further strong global trade growth in 2018-19, buoyed by strong emerging-market export growth and robust Chinese economic growth. However, there is a risk that the administration of the US president, Donald Trump, translates its protectionist rhetoric into more concrete action that severely damages global trade channels.

Trade at stake

(% increase year on year in world trade of goods and services under EIU central scenario)



Note: IMF data for 2006-16; EIU estimate for 2017; EIU forecasts for 2018-19.

Sources: IMF; The Economist Intelligence Unit.

Analysis

The two central scenarios that we are primarily concerned about is a US withdrawal from the North American Free-Trade Agreement (NAFTA) and restrictive measures taken by the US against China that instigate a trade war. Negotiations on revising the NAFTA agreement are under way—including the January round of negotiations that were viewed positively—and our base forecast is that these will result in a new agreement later in the year. However, there remains a risk that, frustrated with the progress of negotiations and viewing the US as “losing” on trade, Mr Trump will attempt to pull the US out of NAFTA. US withdrawal from NAFTA (or even just a rise in uncertainty over its membership participation) would create enormous ructions in one of the largest free-trade areas in the world. An end to such a major trade deal would be likely to fuel protectionist sentiment elsewhere in the world, making it harder for regions and countries like the EU and Japan to push a more liberal trade agenda.

CAUSE FOR CONCERN?

THE TOP 10 RISKS TO THE GLOBAL ECONOMY

During the NAFTA negotiations, the US has been ramping up measures that either directly or indirectly target China's exports. The US has imposed tariffs on the import of solar cells and washing machines, and has multiple ongoing investigations into dumping and theft of intellectual property by China. There is a danger that these trade disputes will escalate into a full-blown trade war if China were to retaliate disproportionately. (So far China has been more measured, launching, for example, an investigation into US sorghum imports.)

Conclusion

Any ramp-up in protectionism would certainly have repercussions beyond North America and China. Prices and availability for US and Chinese products in the supply chains of companies from other nations would be badly affected. Consequently, global growth would be notably curtailed as investment and consumer spending fall back.

Territorial disputes in the South China Sea lead to an outbreak of hostilities

Intensity=12

Moderate probability, High impact

Introduction

The national congress of the Chinese Communist Party in October 2017 marked a watershed in terms of China's overt declaration of its pursuit of great-power status, with the congress setting the goal of China becoming a "leading global power" and having a "first-class" military force by 2050. A clear implication is that the country intends to be more assertive in international matters, at a time when the US's global hegemony is declining.

Disputed island groups in the South China Sea



CAUSE FOR CONCERN?

THE TOP 10 RISKS TO THE GLOBAL ECONOMY

Analysis

Concerns about how China intends to deploy its expanding hard-power capabilities in support of its territorial and maritime claims are likely to encourage other countries to hedge against China, despite its economic heft. At a subsequent Asia-Pacific Economic Co-operation (APEC) meeting, the “Quad” (an informal alliance of Australia, India, Japan and the US) met for the first time since 2007, seemingly out of concern over China’s regional ambitions. A potential flashpoint could be territorial control of the South China Sea; the sovereignty of the islands and reefs there remain a major source of disagreement between China and several members of the Association of South-East Asian Nations (ASEAN). Amid increasingly aggressive moves by China to place military hardware on disputed islets, the other claimant countries in the region have sought to beef up their own maritime defence capabilities. However, the ASEAN claimants have been weakened by the “America First” foreign policy of Mr Trump’s administration, which has seen a partial abdication of US leadership of global affairs. This will further embolden China in asserting its claimed historical rights in the South China Sea. An acceleration of China’s island reclamation measures or the declaration of a no-fly zone over the disputed region are distinct possibilities. Our central view is that an outbreak of military conflict arising from the territorial dispute is unlikely. However, the possibility that small-scale clashes could escalate into a more serious incident cannot be ruled out.

Conclusion

Were military clashes to occur, the economic consequences would be significant. Economic growth would suffer, and regional supply networks and major sea lanes could be disrupted.

Amid the sea of adversity it is also important to recognise that not all risks are to the downside. There is a not insignificant chance that things could be better than expected, as exemplified by the following scenario

Global growth surges above 4%

Intensity=12

Moderate probability, High impact

Introduction

Strengthening growth in some large markets means that there could be a notable bump-up of overall global growth.

Analysis

In 2017 economic data reflected strong fundamentals in many parts of the world, including Europe and a number of emerging markets, setting the stage for a robust 2018. This is likely to push global growth close to 3%, but not to 4%, as capacity constraints in the US and China, commodity price increases and monetary policy normalisation weigh on economic performance. However, there is an upside risk to our central scenario. Our 2018 China growth forecast remains below consensus. There is a possibility that government stimulus efforts will enable the economy to perform even more strongly than we now expect. Although growth in India has fallen short of projections in 2017, its performance remains robust, and Brazil and Russia have both exited recession. Overall, there is a prospect of stronger global growth driven by emerging markets (and Europe, to a lesser, but still important, extent). Growth surpassing 4% would be the highest level since 2010, when the global economy was awash with post-crisis stimulus.

Conclusion

A broad-based acceleration in growth would not only provide welcome relief to slow-growing countries elsewhere but could also assist in any longer-term economic rebalancing in China, making the whole process less painful. An improvement in global demand would provide further support for commodity prices, adding to an economically virtuous circle for commodity exporters in Latin America, the Middle East and Sub-Saharan Africa.

A major cyber-attack cripples corporate and government activities

Intensity=12

Moderate probability, High impact

Introduction

There is a risk that the frequency and severity of cyber-attacks increases to an extent that corporate and government networks could be brought down or manipulated for an extended period of time.

Analysis

There was a spate of high-profile cyber-attacks during 2017, including the so-called WannaCry and Petya attacks, that affected numerous global networks, although the damage was relatively well contained. There is, however, a risk that the frequency and severity of attacks will increase to the extent that corporate and government networks could be brought down or manipulated for an extended period. Cyber-warfare is waged by a broad swathe of different actors, both state-sponsored and criminal networks, and employs a variety of techniques. Many of the recent attacks have centred on the use of ransomware, which seeks to make financial gain by exploiting network vulnerabilities. These attacks could well be part of wider efforts by state actors to cripple rival governments and economies—blame is frequently directed at North Korea, for example—and include efforts to either damage physical infrastructure by cyber-attacks or gain access to sensitive information. A major and widespread attack would shake consumer faith in the security of the internet and put at risk billions of dollars of daily transactions.

Conclusion

Were government activities to be severely constrained by an attack, or physical infrastructure damaged, the impact on economic growth would be even more severe. On the positive side, the recent attacks have highlighted that in many cases the impact can be mitigated by fairly basic cyber-security techniques. However, if these attacks represent a test bed, worse could easily follow.

China suffers a disorderly and prolonged economic downturn

Intensity=10

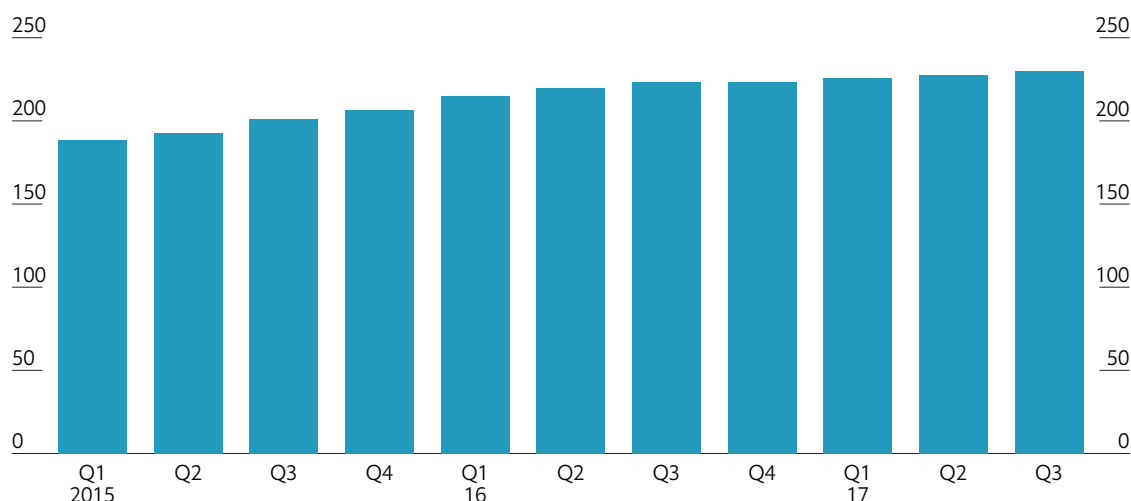
Low probability, Very high impact

Introduction

China is expected to post another year of robust economic growth in 2018, but questions remain over how long it can delay efforts at deleveraging without triggering issues in the over-stretched financial sector.

A surging debt burden will be hard to tame

(domestic debt; % of GDP)



Sources: National Bureau of Statistics of China; Haver Analytics.

Analysis

China's three-day Central Economic Work Conference, an annual meeting of policymakers, concluded in late December, setting out economic policy priorities for 2018. Softer language on deleveraging hints that efforts to reduce debt in 2018 will not be as aggressive as previously assumed. Although this may store up trouble for the future, it does lessen the shorter-term threats to the economy from an attempted deleveraging that gets out of hand, meaning that the risk of a major and uncontrolled slump in 2018-19 seems low now. Nevertheless, this does not mean that such a risk has dissipated entirely. There is still a possibility that the authorities will not be able to contain defaults in the opaque shadow financing sector, or that efforts to slow credit growth, even moderately, with new regulations will prove more disruptive than anticipated. Although it is likely that the authorities would make every effort to prevent a funding crunch in any bank, even a hint that this type of problem was emerging could cause

CAUSE FOR CONCERN?

THE TOP 10 RISKS TO THE GLOBAL ECONOMY

major financial sector problems, given the boom in debt over recent years. Resolving these issues could force the economy into a sudden downturn. The bursting of credit bubbles elsewhere has usually been associated with sharp decelerations in economic growth, and, if accompanied by a house-price slump, this could leave the government struggling to maintain control of the economy—especially if a slew of Chinese small and medium-sized banks, which are more reliant on wholesale funding, falter.

Conclusion

If the Chinese government is unable to prevent a disorderly downward economic spiral, this would lead to much lower global commodity prices, particularly in metals. This, in turn, would have a detrimental effect on the Latin American, Middle Eastern and Sub-Saharan African economies that had benefited from the earlier Chinese-driven boom in commodity prices. In addition, given the growing dependence of Western manufacturers and retailers on demand in China and other emerging markets, a disorderly slump in Chinese growth would have a severe global impact—far more than would have been the case in earlier decades.

There is a major military confrontation on the Korean Peninsula

Intensity=10

Low probability, Very high impact

Introduction

Tensions between the US and North Korea have been a geopolitical constant since the end of the Korean War in 1953. However, the situation on the Korean Peninsula currently appears more serious owing to the rogue regime's progress on developing a long-range missile that can threaten US soil and on mastering nuclear technology.

Analysis

Further heightening risk, Mr Trump has taken a more hardline view towards North Korea than his predecessor. The combination of a more aggressive stance by the US and the likelihood of North Korea becoming a fully fledged nuclear state capable of hitting the US mainland by 2018 or early 2019 could result in an escalation to major armed conflict. Indeed, risks will be heightened over the next two years, with some in the US calling for a preventative strike before North Korea has the capability to launch intercontinental nuclear missiles. However, under such a scenario North Korea would almost certainly retaliate with conventional weaponry and potentially shorter-range nuclear missiles, bringing devastation to South Korea and Japan in particular, at enormous human cost and entailing the destruction of major global supply chains. The likely human and material consequences of going to war with North Korea, arguably an unpredictable state at the best of times, remain the strongest deterrents to war. However, North Korea will continue to develop its nuclear weapons programme regardless of the US's threats or any economic pressure generated by tighter international sanctions. China will recalibrate its trade and diplomacy with North Korea in line with UN sanctions, but will seek to avoid causing instability in its neighbour.

Conclusion

The US's position is the most fluid. A pivot from aggression to containment is likely in the medium term, but before then the risk of a US attack aimed at damaging North Korea's military capabilities is growing.

Proxy conflicts in the Middle East escalate into direct confrontations that cripple global energy markets

Intensity=10

Low probability, Very high impact

Introduction

The rivalry between Saudi Arabia and Iran has been a multi-decade issue. However, it is currently intensifying and there is a small but notable risk of outright conflict between the two countries in the coming years as the wider region becomes more polarised between the two sides.

Analysis

Historically, Saudi Arabia's geopolitical actions in the region have been cautious and reactive, relying typically on the US for security back-up. However, in the light of the perceived rising threat of an expansionary Iran, combined with a much more assertive younger generation of Saudi policymakers led by the 32-year-old crown prince, Mohammed bin Salman al-Saud, this trend is being reversed. The crown prince has been leading a Saudi military intervention in Yemen since early 2015 and a boycott of a Gulf neighbour, Qatar, since June 2017—both of which were partly aimed at reducing Iranian influence. Adding to the aggressive approach taken by Saudi Arabia is a more divisive and unclear US policy in the Middle East. The decision of the previous US president, Barack Obama (2009-17), to draw back direct US influence in the region and engage in diplomacy with Iran—eventually leading to the 2015 nuclear deal—played a part in Saudi Arabia deciding to take a more active role in opposing Iran. With Mr Trump ramping up his incendiary rhetoric and expanding unilateral sanctions on Iran, the US is now inflaming tensions in the region. Indeed, Mr Trump's recent comments in support of protesters in Iran prompted the Iranian regime to react angrily to what it claims is foreign interference in its affairs. Furthermore, the decision by Saudi Arabia and its allies to boycott Qatar in mid-2017 came shortly after a visit by Mr Trump to Saudi Arabia, in which it seems likely that he gave his support for such a move. However, far from putting pressure on Iran and isolating Qatar, the boycott has pushed the two states closer together, with Turkey also in the orbit of this alliance, given its military presence in Qatar. This, in turn, is fostering the development of a Saudi Arabia-Egypt-UAE axis, highlighting how the Saudi-Iranian rivalry is creating and solidifying divisions within the region, as countries are increasingly forced to pick sides. It means that any country with possibly conflicting interests in the rivalry will probably suffer from a destabilising proxy conflict in the medium term, either through indirect military action or through the funding of competing political groups.

Conclusion

In the worst-case scenario, these proxy battles could lead to wider conflict in the Gulf region, potentially pitting Saudi Arabia and Iran directly against each other, shutting down the Strait of Hormuz and crippling global energy markets. In a period when we already expect global oil stockpiles to be falling, any disruption to supply from the Gulf would quickly translate into a surge in prices and would consequently hit global economic growth prospects severely.

Oil prices fall significantly after the OPEC deal to curb production breaks down

Intensity=9

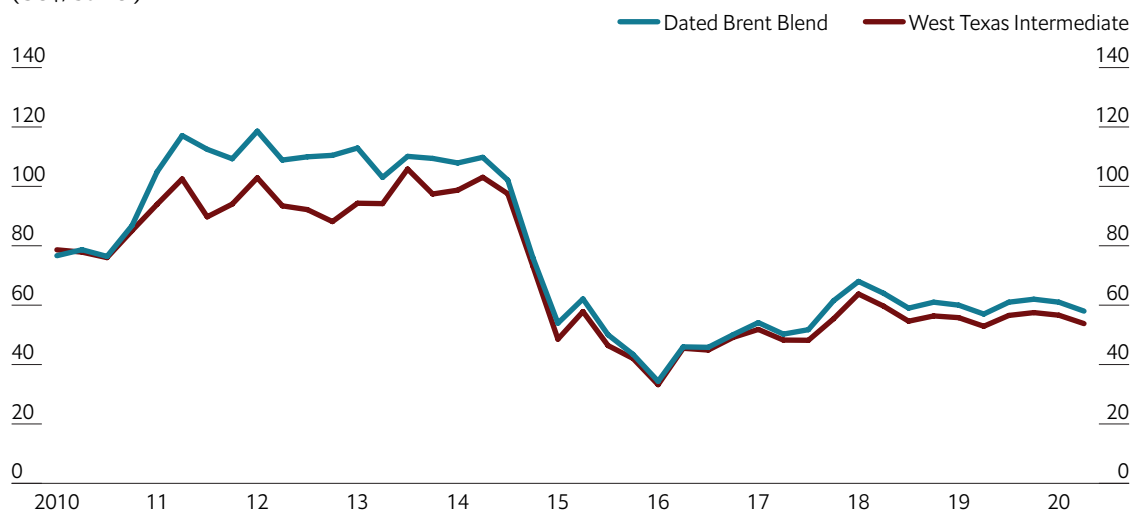
Moderate probability, Moderate impact

Introduction

OPEC producers and Russia agreed to extend their production cuts throughout 2018 at the end of November 2017. After that, the quota system is expected to be wound down only gradually. However, there is a risk that the OPEC deal will break down.

Oil: prices

(US\$/barrel)



Sources: IMF, *International Financial Statistics*; The Economist Intelligence Unit.

Analysis

The oil exporters' organisation has lost market share to non-OPEC producers, particularly the US, and during 2018 OPEC producers may calculate that their strategy has not worked, choosing to revert to their previous policy of preserving market share, come what may. Alternatively, rising political tensions between members of the Gulf Co-operation Council related to the Saudi-led boycott of Qatar could potentially erode OPEC countries' willingness to work together to rebalance the oil market. In addition, Russia's participation has become increasingly important to the success of the deal, but its government's willingness to commit to the end-2018 extension of cuts appeared to waver ahead of the November meeting. If Russia were to pull out of the agreement early—for example, owing to a breakdown in its partnership with Saudi Arabia, or out of a desire to boost its revenue from natural resources—this could also cause the deal to fall apart. If the taps are turned back on, roughly 1.8m barrels/day of additional production would come back onto the market. This would cause prices

CAUSE FOR CONCERN?

THE TOP 10 RISKS TO THE GLOBAL ECONOMY

to plummet. Although this would lead to slightly higher consumption, prices could still fall back to previous troughs of around US\$30/barrel. Cheaper oil will support economic activity in countries that rely heavily on energy imports or energy-hungry industries, although the shockwaves of the impact on producers would be felt globally. Oil producers (including the US and Canada) would suffer greatly from a downturn in investment, feeding through to economic demand. Countries that rely heavily on oil exports—primarily the Gulf, but also Russia, West Africa and some parts of Latin America—would face a second round of spiralling current-account and fiscal deficits.

Conclusion

Having only recently started to recover from the 2014-16 downturn, oil prices would be hit hard by a sudden, large increase in crude production, and some countries would face serious balance-of-payments shocks. Developing nations, including Nigeria and Angola, would face serious debt distress, and possibly also political and social instability.

Multiple countries withdraw from the euro zone

Intensity=5

Very low probability, Very high impact

Introduction

We think it more likely than not that Greece will leave the euro zone in the medium term. We do not expect other countries to follow, but if they did, it would be highly damaging to both the European and the global economy.

Analysis

Greece's problems are largely country-specific, such as the ingrained corruption of its oligarchy, a lack of foreign investment (resulting from closed sectors, protectionism and hostility to foreign ownership) and a resultant lack of competitiveness. As such, Greece's withdrawal would not pose a systemic risk to the bloc, especially as the European Central Bank would intervene to limit contagion. Nevertheless, this does not mean that there is no prospect of Greece's exit leading to other exits from the euro zone. For example, political and economic ructions in Italy threaten to derail the country's fragile economic recovery. Uncertainty over the outcome of the general election, which is due to be held on March 4th, and the poor health of the local banking system are compounding popular disaffection. Economic and political malaise is also boosting support for populist parties such as Movimento 5 Stelle, which has called for a referendum on Italy remaining in the euro zone. As institutional constraints would be likely to prevent such a referendum from taking place, the risk of Italy unilaterally leaving the euro zone is very low, but could rise if the government does not manage to tackle adequately the economy's structural problems, which undermine competitiveness and make controlling the public finances difficult. Indeed, the economic woes across southern Europe have illustrated the fundamental difficulties posed by a single currency zone without a fiscal union.

Conclusion

If more countries were to leave the euro zone, the global economy would be destabilised. Countries leaving the zone under duress would suffer large currency devaluations and be unable to service euro-denominated debts. In turn, banks would suffer huge losses on their sovereign bond portfolios and the global economy could be plunged into recession.

Prepare for risk with The Economist Intelligence Unit

In an age of increased unpredictability and event risk, firms and governments are more than ever seeking to insulate themselves from the consequences. Global businesses cannot avoid risk—and too much risk aversion can be bad for growth—but they can prepare for risk, just as they can for opportunity.

The Economist Intelligence Unit is perfectly placed to assist, and has a number of risk products and services available:

Risk Briefing

Identify, assess, compare and mitigate the risks of doing business in 180 markets

Risk Briefing provides you with expert analysis to identify and mitigate operational risk in 180 markets, enabling you to make business decisions with confidence. Risk Briefing provides forecasts, alerts, background studies, and data covering a wide range of risk factors.

At the centre of the service sits a risk model that assesses a country's overall business operating risk. It combines our renowned political and economic analysis with new material covering the business conditions on the ground. The resulting scores allow us to rank countries by operating risk.

Our Risk Briefing service includes:

- Coverage across 180 countries
- Comprehensive quarterly updates
- Scenarios for risk sub-categories providing analysis of the current situation in a particular country
- Regular events-driven coverage affecting our assessment of operating risk
- One model across all countries enabling quick and easy comparison

Country Risk Service

Sovereign risk ratings and analysis for 131 countries

Country Risk Service provides detailed credit risk assessments in 131 developed and emerging markets, combining The EIU's market-leading data capability and country expertise in a rigorous risk modelling framework.

Each report includes a one-page summary covering the five main rating categories (sovereign, currency, banking, politics and economic structure), analysis and explanation of these ratings, including any grade changes, positive and negative factors, and the ratings outlook over the next twelve months.

Country Risk Service also provides you with:

- Coverage across 131 countries
- Consistent country by country comparisons
- Access to frequently published events-driven coverage

Country Risk Model

An interactive tool for analysing country and sovereign risk

Country Risk Model is a customisable model designed to measure and compare credit risk across countries. It is the model which our analysts use to rate the 131 countries covered by our Country Risk Service. The model is an ideal tool for analysing country credit risk, as an input into your in-house risk assessment process, or to benchmark your own country risk assessments.

Country Risk Model includes:

- A wide range of monthly and quarterly macroeconomic data
- Ratings and data which can be easily compared across countries over time
- Regular updates to ensure deteriorating trends are caught early

Copyright

© 2018 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

While every effort has been taken to verify the accuracy of this information, The Economist Intelligence Unit Ltd. cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report.

LONDON

20 Cabot Square

London

E14 4QW

United Kingdom

Tel: +44 (0) 20 7576 8181

Email: london@eiu.com

NEW YORK

750 Third Avenue

5th Floor

New York, NY 10017

United States

Tel: + 1 212 698 9717

Email: americas@eiu.com

HONG KONG

1301 Cityplaza Four

12 Taikoo Wan Road

Taikoo Shing

Hong Kong

Tel: + 852 2802 7288

Email: asia@eiu.com