Hong Kong Export Credit Insurance Corporation
香港出口信用保險局

dun & bradstreet

HKECIC – D&B Export Credit Risk Index

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ISSUED BY:

Hong Kong Export Credit Insurance Corporation

Dun & Bradstreet (HK) Limited

CONTENTS

1. FOREWORD

Terence Chiu

Commissioner, Hong Kong Export Credit Insurance Corporation

In light of escalating geopolitical tensions and shifting global trade dynamics, understanding the risks associated with exports becomes more critical than ever. This latest "HKECIC – D&B Export Credit Risk Index" incorporates proprietary data and comprehensive insights from D&B and the HKECIC, serving as a vital tool for businesses navigating these complexities. By leveraging in-depth market analysis, exporters can identify potential risks and seize new business opportunities confidently in an uncertain trading environment.

Andrew Wu

General Manager, Dun & Bradstreet China

In this latest edition, we observe the steadfast resilience of Hong Kong exporters in the face of global uncertainties, providing valuable insights into navigating the complexities of post-epidemic markets.

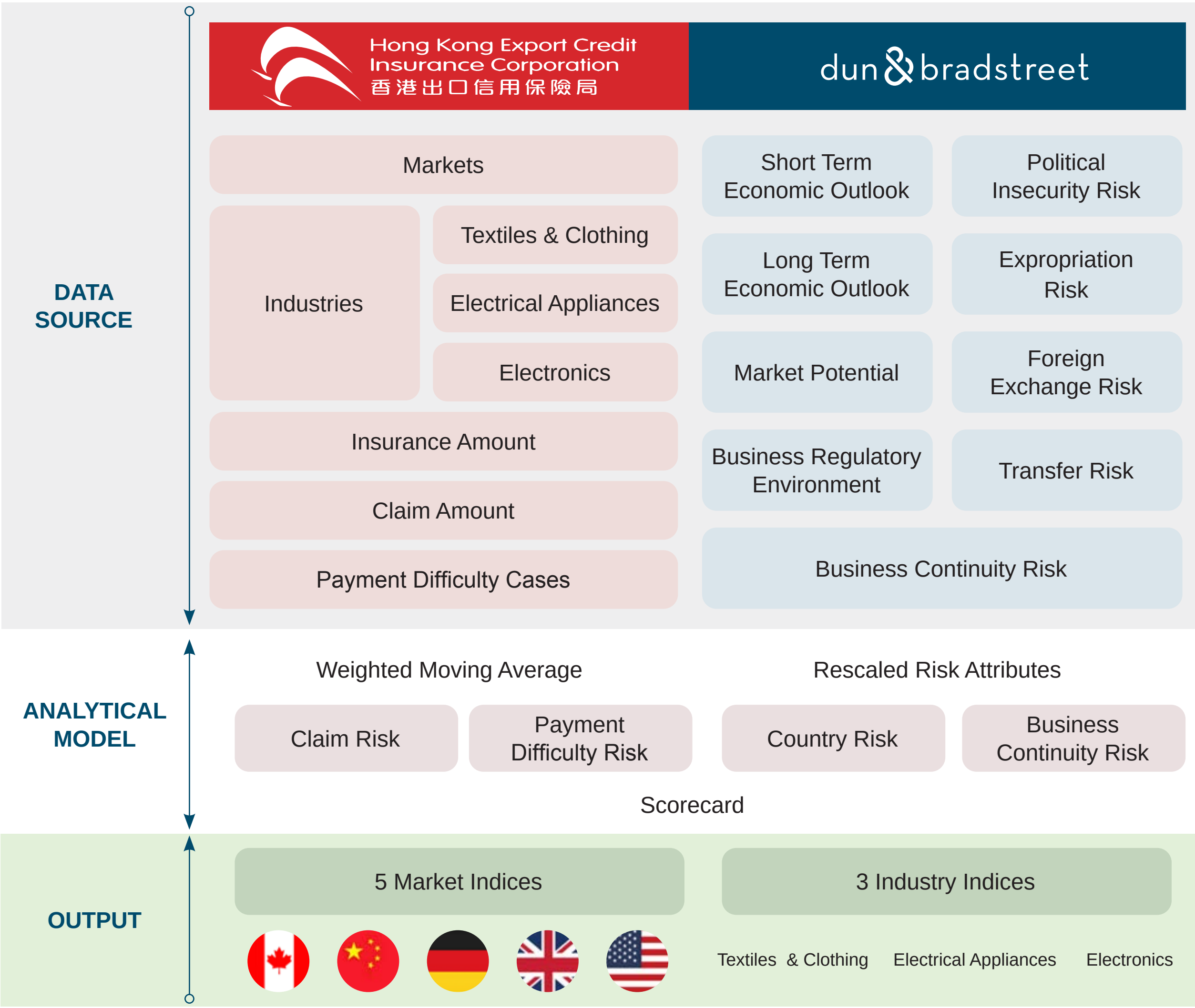
Despite economic fluctuations and geopolitical changes, Dun & Bradstreet's commitment remains unwavering as we support Hong Kong exporters in capturing opportunities and surmounting challenges. Through the "HKECIC - D&B Export Credit Risk Index" and customized solutions, we enable businesses to flourish in dynamic environments, promoting resilience and sustainable growth.

Sponsored by the Hong Kong Export Credit Insurance Corporation (HKECIC) and Dun & Bradstreet (D&B), the "HKECIC - D&B Export Credit Risk Index" leverages data sources of D&B and HKECIC to implement cross-analysis. D&B provides country and region risk indicators from nine different perspectives. Country and region risk indicators are based on D&B's macro analysis and research. HKECIC provides insurance/claim data and payment difficulty data. Payment difficulty data include market and industry perspectives. The index set covers five market indices (Canada, Mainland China, Germany, the United Kingdom, and the United States) to reflect general export market risk. In each market, three industry indices (Textiles & Clothing, Electronics, and Electrical Appliances) are provided to reflect the specific industry risk.

The "HKECIC - D&B Export Credit Risk Index" could be used to support Hong Kong exporters to:

- Understand the global business environment in a concise and relevant manner.
- Identify risks in coming seasons for industries and related products.
- Recognise relatively riskier counterparties in comparison to the general market and industry.

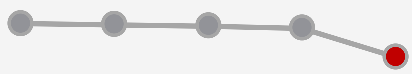
2. INDEX METHODOLOGY



HKECIC - D&B Export Credit Risk Index was created referencing data from both the Hong Kong Export Credit Insurance Corporation (HKECIC) and Dun & Bradstreet (D&B). HKECIC's insurance business data, including insurance amount, claim amount, and payment difficulty cases were analysed using weighted moving average to generate two risk indicators – claim risk and payment difficulty risk. The D&B country insights, including short term economic outlook, long term economic outlook, market potential, business regulatory environment, political insecurity risk, expropriation risk, foreign exchange risk, transfer risk and business continuity risk, were precisely developed indicators. The indicators were rescaled to reflect general risk in country level. In preparation for analytical modelling and calculations, the data are further normalised, processed, and weighted within scorecard. The outputs are 5 market indices as well as 3 industry indices in each market on 1-10 scale, where 1 represents the highest risk and 10 represents the lowest risk.

3. INDEX SUMMARY

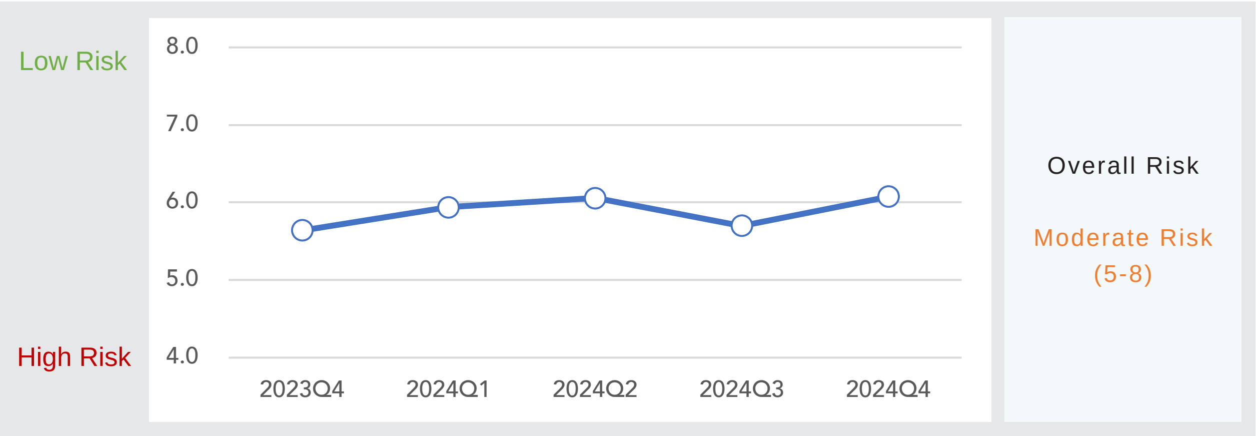
▲ Improving quarter-on-quarter
▼ Deteriorating quarter-on-quarter
▶ Flat quarter-on-quarter

Market	Credit Risk Index	Industry	Industry Index 2024 Q3	Industry Index 2024 Q4
Canada	 6.1	Textiles & Clothing	5.8	▲ 6.1
		Electrical Appliances	6.1	▲ 6.2
		Electronics	6.0	▲ 6.2
China	 6.9	Textiles & Clothing	6.9	▶ 6.9
		Electrical Appliances	6.9	▶ 6.9
		Electronics	6.9	▶ 6.9
Germany	 3.6	Textiles & Clothing	4.9	▼ 3.2
		Electrical Appliances	6.1	▼ 5.9
		Electronics	5.7	▲ 5.8
UK	 6.7	Textiles & Clothing	6.4	▲ 6.7
		Electrical Appliances	6.5	▲ 6.7
		Electronics	6.5	▲ 6.7
USA	 6.8	Textiles & Clothing	7.6	▲ 7.8
		Electrical Appliances	8.6	▼ 8.2
		Electronics	8.5	▼ 8.2

4. INDEX DETAILS AND INSIGHTS

4.1 Canada

CREDIT RISK INDEX



Source: Dun & Bradstreet / HKECIC

Country Insight

Canada has an abundant supply of natural resources, and a highly skilled workforce which is expanding due to immigration. Recently, Justin Trudeau, the Prime Minister from the Liberal Party of Canada, announced his resignation as the leader of the Liberal Party; however, he will continue to serve as Prime Minister until a new party leader is elected. Overall, Canada remains governed by the Liberal Party, so this change in leadership is unlikely to have a significant impact on the Canadian political landscape in the short term. Canada's economic policies and institutions place a strong emphasis on innovation, entrepreneurship, and support for R&D. Furthermore, the country's proximity to its largest trading partner, the US, provides access to a vast market for Canadian goods and services. However, its long-term growth is faced with challenges such as an ageing population, a persistent lack of investment, and declining labour productivity. Canada's credit risk index shows an overall **slow upward trend** in 2024, returning to normal levels in Q4, despite fluctuations in Q3.

Recent Developments

- The Trump administration imposes tariffs on imports from Canada, potentially affecting the short-term economic outlook. After this policy is enacted, it could lead to a decline in Canadian exports to the US, thereby threatening the operations of Canadian export-oriented businesses. Additionally, Canada's retaliatory tariffs on US goods could drive up inflation and have adverse effects on consumption, investment, and overall economic stability.
- Canada is implementing a CAD1.3 billion border plan to enhance coordination with the US in a joint effort to combat violations such as drug cartels and money laundering at the border. Immigration, Refugees and Citizenship Canada (IRCC) intends to impose a short-term moratorium on population growth, with the number of new immigrants to Canada this year set to decline for the first time since the COVID-19 lockdown, in a move designed primarily to ease pressure on the housing and social services systems.

Statistical Reference

Metric	2019	2020	2021	2022	2023	2024	2025e	2026e
Real GDP growth (%)	1.9	-5.1	5.0	3.4	1.2	1.4	1.3	1.8
GDP per Capita in USD	46,470	43,479	52,469	55,590	55,275	55,824	58,184	60,845
Exchange Rate (yr avge, USD-CAD)	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.3
Inflation (annual avge, %)	2.0	0.7	3.4	6.8	3.9	2.2	2.4	2.1
Purchasing Managers' Index (PMI)	54.0	51.2	61.3	57.5	53.7	48.4	N/A	N/A

*Source: Haver Analytics / Dun & Bradstreet**

** Data may be adjusted and normalised for the purpose of comparison across different countries, and therefore may not be entirely the same as those released by national statistical offices.*

Credit Environment:

Risks and Opportunities

- The banking sector is stable, well-capitalised, and liquid, allowing it to perform its typical role in providing loans and enabling transfers. Financing for purchases by importers has been secured, thereby reducing the risk that exporters will have difficulty in collecting their accounts receivable.
- Overall lending to the private sector is on the rise, although the stock of loans has decreased from CAD692.8 billion in November 2024 to CAD679.6 billion in December 2024.
- The Bank of Canada is steadily reducing base rates, including a cut of 25bps in January 2025 to 3%, in response to falling inflation.
- The Canadian dollar is under pressure due to the tariff imposed by the Trump administration on imports from Canada, which could diminish Canadian exports to the US.
- New lending could be constrained from 2026 following full implementation of new Basel III rules, which affect the way banks calculate risk-weighted asset ratios.
- Corporate insolvencies reached their highest level in 15 years in Q3 2024, with construction, accommodation, food services, transportation and warehousing all adversely affected.

Key Takeaways

- The credit environments in different regions of Canada may vary. For instance, business activity in Ontario and British Columbia is relatively high, and the corporate credit management in these two provinces is fairly standardised. However, regions with relatively moderate business environments, such as Manitoba and Saskatchewan, may present uncertainties regarding credit risks. Therefore, when engaging in trade with Canadian enterprises from different regions, it is advisable to develop tailored risk assessment strategies. The Bank of Canada's interest rate cuts are beginning to take effect, boosting consumer spending and invigorating the housing market. According to the Bank of Canada's Monetary Policy Report released in January 2025, past interest rate cuts are boosting household spending and housing activity.

Supply Environment:

Risks and Opportunities

- Canada has experienced a labour shortage, with around 546,075 job vacancies in the economy. Skilled tradespeople are especially in short supply.
- Postal and parcel services across Canada fully resumed in January 2025, following the conclusion of the strike that began in mid-November 2024.
- Canada plans to start new nuclear projects more quickly by shortening the approval process, thereby expediting the long-term transition to alternative energy.

Key Takeaways

- Labour shortages in Canada can lead to inefficiencies for local businesses, thereby prolonging the transportation cycle and increasing the cost of exports from Hong Kong. The potential impact of the Canadian labour shortage on the supply chain can be mitigated by optimising supply chain management through automation or by aligning logistics partners.
- Factor the risk of delayed deliveries into short-term business planning and consistently monitor supplier risk, particularly in light of the recent wave of strikes affecting Canada.

Market Environment:

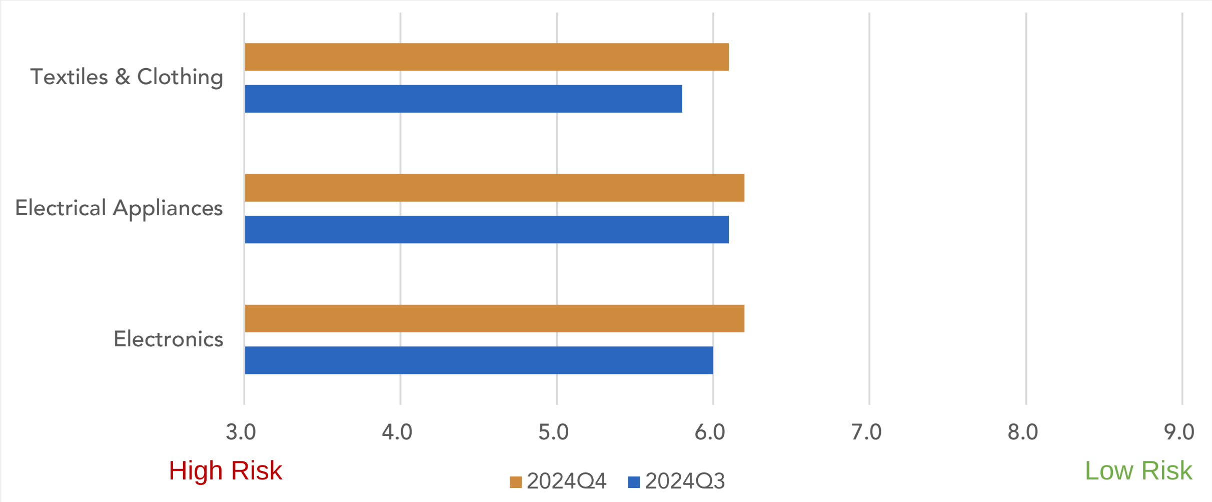
Risks and Opportunities

- The government has announced countermeasures in response to the US tariffs such as tariffs on selected goods imported from the US by phases.
- Growth is likely to be hampered by a projected 0.2% decline in population in 2025 and 2026, as the government tightens restrictions on immigration.
- The underlying performance of the economy has been improving, with proxy data for Q4 2024 pointing to an expansion in economic activity of 1.7% y/y.
- Although the temporary tax reduction measures implemented by the Canadian government since December 2024 have resulted in a slight decline in commodity prices, significant increases in energy prices, such as gasoline and natural gas, have still caused the inflation to rise from 1.8% in December 2024 to 1.9% in January 2025.
- The impending exit of the current government casts doubt on various planned tax rises, including a rise in the inclusion rate on capital gains from 50% to 67%.

Key Takeaways

- Monitor announcements regarding US tariffs on Canada, and assess the potential impacts.
- Be aware of amendments to the United States-Mexico-Canada Agreement (USMCA), which could be adversely amended when it is due to be reviewed in 2026.

Industry Index



Source: Dun & Bradstreet / HKECIC

Industry Trends

Textiles & Clothing

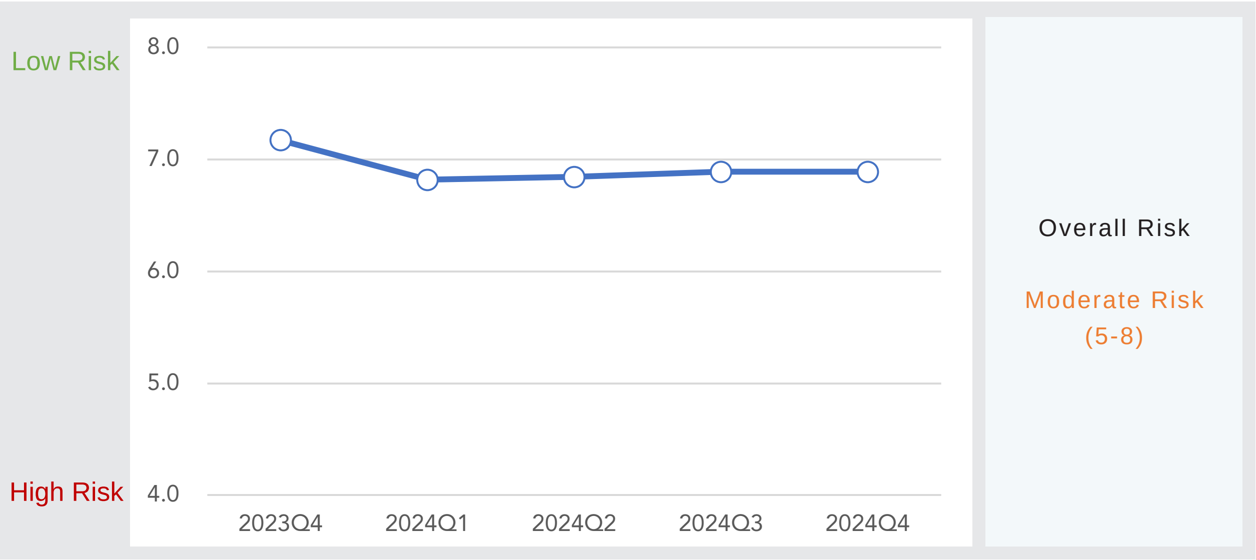
- The index for the Canadian textiles and clothing industry remained stable in 2024, with a slight fluctuation observed in Q3 2024.
- Hong Kong's government statistics indicate that total exports from Hong Kong to Canada decreased by 7% y/y in H2 2024, while textiles and clothing exports to Canada experienced a significant rise of 46.7% y/y during the same period.
- As of August 2024, total apparel sales in Canada had declined by 1.7%, while total retail apparel shop sales had declined by 0.3%. By September 2024, the average price of apparel had fallen by 6%.
- Canadian clothing retailers are facing the pressure from low-priced fashion e-commerce brands such as "Shein" and "Temu", which are seizing market share. Moreover, factors such as current inflation have contributed to a decline in the demand for clothing consumption. In addition, changes in international trade policies, such as tariff adjustments and trade barriers, may also affect the import costs and selling prices of clothing, thereby squeezing profit margins.
- Several Canadian clothing brands, including "Frank And Oak", "Rick's" and "Cleo" filed for creditor protection in late 2024.

Electrical Appliances and Electronics

- Since Q1 2024, the index for Canada's electrical appliances and electronics industry has remained stable, with a slight improvement in Q4 2024.
- Hong Kong's government statistics show that total exports of electrical and electronic products from Hong Kong to Canada fell by 7.4% y/y in H2 2024.
- The Canadian appliances market generated revenue of USD10.7 billion in 2024. Large appliances accounted for the highest revenue-generating segment, while small appliances represented the most lucrative one.
- US tariff hikes could adversely affect the semiconductor industry - a sector which is composed of several hundred Canadian companies in which Ottawa and Quebec have invested hundreds of millions of dollars in recent years, and is deeply integrated with the US market.

4.2 Mainland China

CREDIT RISK INDEX



Source: Dun & Bradstreet / HKECIC

Country Insight

Following a strong start in early 2024, the Chinese economy is gradually stabilising in response to stimulus measures. Two opposing factors are shaping the outlook: the government's fiscal initiatives aimed at supporting economic stability and combating deflation risks, and the trade friction with the US caused by tariff hike. While current stimulus measures are designed to promote sustainable expansion, they have shown limited effectiveness in the short term. The credit risk index **remains stable** in H2 2024 in the Mainland China market.

Recent Developments

- In December 2024, factory activity in Mainland China grew modestly. However, declining export orders dampened this momentum, underscoring the need for additional stimulus amid ongoing trade uncertainties.
- Consumer e-commerce is generating new energy for growth. According to the National Bureau of Statistics, annual online retail sales in 2024 increased by 7.2%. Digital consumption continued to grow, with smart home systems experiencing a rise of 22.9%. Additionally, online service consumption grew rapidly, with online tourism increasing by 48.6% and online catering by 17.4%.
- Cross-border e-commerce has accelerated the release of new energy in foreign trade. According to preliminary statistics from the General Administration of Customs, the import and export value of cross-border e-commerce amounted to RMB2.63 trillion, representing an increase of 10.8%, while the proportion of Mainland China's imports and exports rose to 6%. The effectiveness of government services has also improved.

Statistical Reference

Metric	2019	2020	2021	2022	2023	2024	2025e	2026e
Real GDP growth (%)	5.9	2.2	8.4	3.0	5.2	5.0	4.7	4.8
GDP per Capita in USD	10,045	10,309	12,496	12,610	12,489	13,209	13,786	14,590
Exchange Rate (yr avge, USD-CNY)	6.9	6.9	6.4	6.7	7.1	7.2	7.3	7.3
Inflation (annual avge, %)	2.9	2.5	0.8	1.9	0.3	0.2	0.5	0.8
Purchasing Managers' Index (PMI)	49.7	49.9	50.5	49.1	52.6	52.1	N/A	N/A

*Source: Haver Analytics / Dun & Bradstreet**

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Credit Environment:

Risks and Opportunities

- Inbound travel to Mainland China has experienced significant growth during the Chinese New Year, with bookings for the holiday period rising over 200% y/y. This surge is supported by expanded visa-free entry policies and targeted efforts to revitalise tourism.
- Beijing has announced a sharp increase in ultra-long treasury bond funding for 2025, with a focus on consumption-boosting programmes, such as subsidies for durable goods and large-scale equipment upgrades for businesses.
- The People's Bank of China (PBOC) has hinted at interest rate cuts in 2025 to enhance credit responsiveness to monetary policy, further supporting economic recovery.
- In April 2025, China's yuan fell to its weakest level since 2023 after the central bank slightly loosened its grip on the currency, in an attempt to counteract the blow to exports from an intensifying global trade war. The stability of the yuan is vulnerable to any further escalation of the US-China trade spat.
- The PBOC continues to prioritise market-oriented adjustments to interest rates, thereby reducing its reliance on quantitative targets for loan growth in order to enhance credit efficiency. The reform aligns credit distribution with objectives for high-quality development, and benefits sectors such as green energy and advanced manufacturing.

Key Takeaways

- Diversify supply chains and identify alternative export markets to mitigate the risks associated with increased trade tensions.
- Closely monitor forthcoming policy announcements, as additional fiscal measures in 2025 may present growth opportunities.
- Factor into long-term planning the risks posed by structural changes in the real estate market, including a shift in sales towards secondary markets and an increased government focus on social housing.
- Opportunities abound in strategic industries such as aerospace, aviation, new energy, biomedicine, quantum technology, advanced IT and AI, as these are key areas of focus for the government.
- Enhance hedging strategies to mitigate FX risks, particularly concerning imports and debt denominated in foreign currencies.

Supply Environment:

Risks and Opportunities

- The supply environment for the technology and electronics sectors has significantly deteriorated. Beijing has imposed export licence requirements on gallium and germanium and, most recently, on antimony (a metal crucial for defence applications) and high-grade graphite. Japan and the Netherlands have joined the US in limiting the supply of high-end chips and equipment to Chinese firms.
- While the investment-led growth of previous years may not be repeated, expenditure on infrastructure will persist in underserved rural areas.

Key Takeaways

- Be aware of the disruption to shipping routes via the Red Sea, which has compelled shipowners to relocate tonnage to the Pacific Basin, resulting in increased freight rates and congestion outside the ports of Shanghai and Ningbo Zhoushan.
- Be aware that Mainland China's export controls on several critical rare-earth minerals may adversely affect manufacturers of electric vehicle batteries.
- Note that the EU's decision to investigate state-sponsored subsidies for Chinese EVs and wind turbines, and a US inquiry into Chinese shipbuilders may again disrupt supply chains.
- Note that companies operating in the AI space are particularly vulnerable to US-led bans on exports of advanced processors and the screening of outbound investments.

Market Environment:

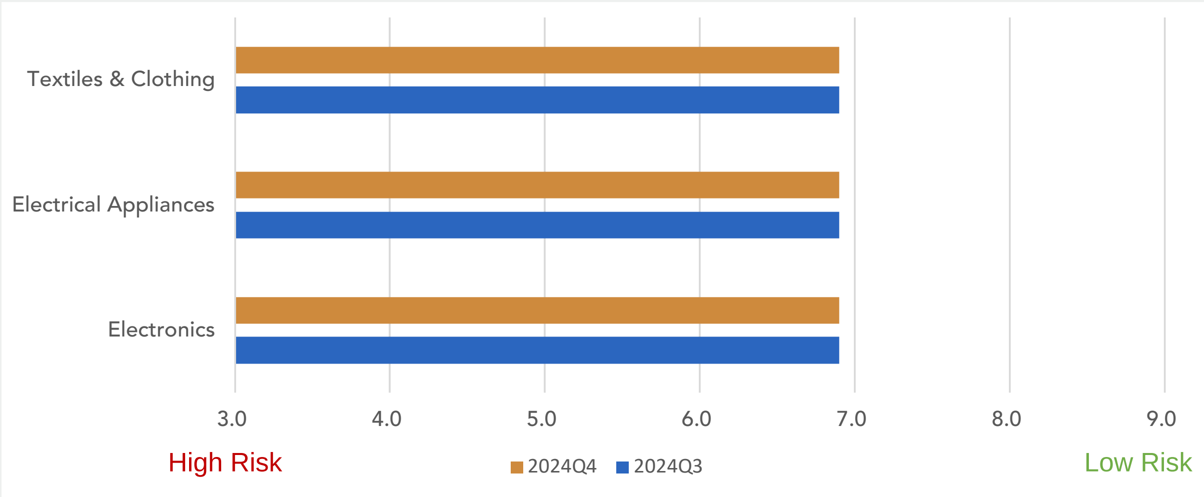
Risks and Opportunities

- The Ministry of Commerce has eased foreign investment regulations for listed companies by reducing asset thresholds, shortening lock-up periods and expanding investment methods, signalling greater openness to international capital.
- Adjustments to Mainland China's import-export tariff for 2025 are designed to boost domestic demand and promote industrial advancement, featuring reductions for green products and increases for selected commodities.
- US President Donald Trump recently announced an additional tariff on imports from Mainland China in response to the country's failure to curb the flow of fentanyl into the US. President Trump has also threatened to impose tariffs on BRICS countries if they attempt to undermine the dollar's dominance in global trade.

Key Takeaways

- Anticipate investment opportunities in healthcare, services and telecoms in 2025, as well as expect measures to boost electric vehicles and consumer electronics sales to likely persist.
- Be aware that export controls and extensive screening of inbound and outbound investments have significantly restricted market access in the tech sector for both the US and Mainland China, and this situation is likely to continue.
- Keep an eye out for opportunities arising from economic cooperation between Mainland China and the Middle East, as well as Latin America, particularly in capital market integration, electric vehicle battery manufacturing, automobiles, resource processing, and infrastructure.

Industry Index



Source: Dun & Bradstreet / HKECIC

Industry Trends

Textiles & Clothing

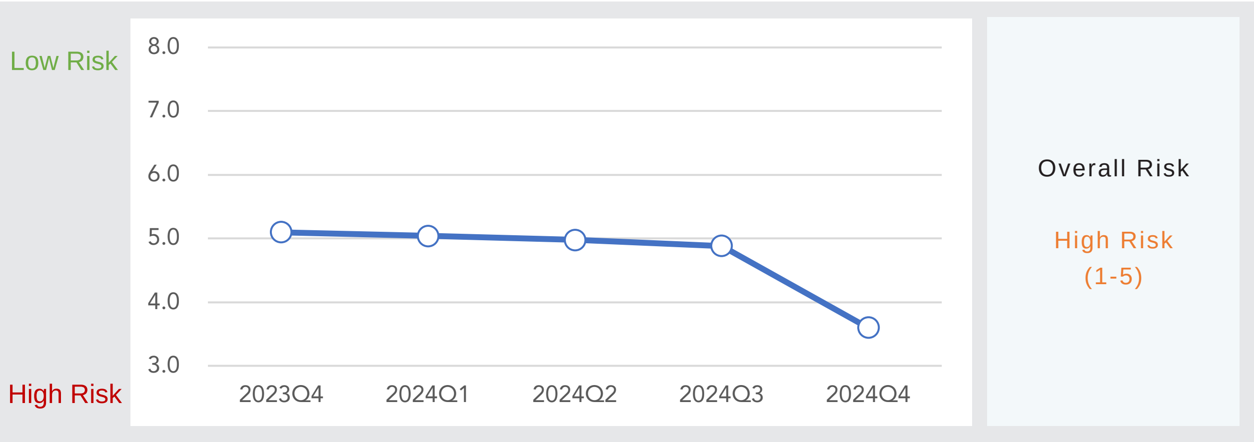
- The index for Mainland China textiles and clothing industry remained stable during H2 2024.
- From January to December 2024, Mainland China's cumulative textile and apparel exports totalled USD301.1 billion, up by 2.8% y/y. Of this total, textile exports reached USD141.96 billion, up by 5.7%, while apparel exports amounted to USD159.14 billion, up by 0.3%.
- Hong Kong's total exports of textiles and clothing to Mainland China dwindled by 1.4% in 2024, in contrast to 15.5% growth for all products as a whole.
- In January 2025, the US Department of Homeland Security expanded its import bans related to forced labour to encompass more Chinese textile companies, thereby intensifying supply chain risks for global fashion brands.

Electrical Appliances and Electronics

- Despite the imposition of multiple sanctions by the US, Mainland China's integrated circuit exports managed to grow by 17.4% in 2024, confirming the country's strong support for technology development, particularly clean energy technology - the "new three" of solar power, lithium batteries and electric vehicles.
- Demand for AI capabilities has been growing and is expected to remain high in Mainland China, which means more investment in AI infrastructure and higher demand for servers, chips and cloud services etc., benefiting export growth of technology-related sectors.
- The index for Mainland China's electrical appliances industry remained stable in H2 2024. External demand stabilised and began to recover, as importers replenished inventories, which helped stabilised foreign trade and benefited enterprises under the successive implementation of supportive policies.
- Exports of Mainland China's electrical appliances and electronics for the year 2024 surpassed a record high of USD2,100 billion (according to customs statistics), with year-on-year growth exceeding expectations and playing a crucial role in driving the stable growth of goods exports.
- Mainland China expanded the scope of its trade-in subsidy program for electronics, home appliances, and vehicles in 2025, with the aim of boosting consumption in these sectors.

4.3 Germany

CREDIT RISK INDEX



Source: Dun & Bradstreet / HKECIC

Country Insight

As indicated by the credit risk index, the German market has experienced a **marked deterioration** in overall risk since Q3 2024. Germany's economic potential remains challenging as the country is grappling with structural impediments to economic growth, an uncertain political environment, and a brewing trade war among major global economic forces, including the US, Mainland China and within Europe itself. The political turmoil, economic contraction, and concerns about renewed inflationary pressures are weighing on Germany's short-term economic outlook. In 2024, Germany's net trade negatively impacted GDP, with exports declining by 1.9%, reflecting ongoing weak external demand. In addition, the German economy contracted by 0.3% y/y in the third quarter of 2024. The German manufacturing sector is also facing competitive disadvantages due to cost pressures from energy prices and high wages. Although the government has been trying to address some of these challenges, Germany has a long road ahead to regain its traditional economic prowess. Key challenges include an ageing population, a shortage of skilled workers, a decline in the working-age population, low investment, archaic bureaucracy, and a lack of flexible operating structures.

Recent Developments

- The collapse of the government and the subsequent announcement of a snap poll in February 2025 have set Germany on a prolonged course of policy uncertainty. This situation is likely to result in delays in the passage of several critical bills, including the 2025 budget and an amendment of the debt-break rule.
- Germany is reforming its healthcare system to upgrade infrastructure and reduce costs, but this may cause short-term disruption and financial strain due to the EUR50 billion investment planned over the next decade.
- Healthcare spending in Germany amounts to around EUR400 billion annually and is expected to rise due to an ageing population. If not managed effectively, this could divert resources away from critical sectors, such as technology and education.

Statistical Reference

Metric	2019	2020	2021	2022	2023	2024	2025e	2026e
Real GDP growth (%)	1.1	-3.8	3.2	1.8	-0.2	-0.2	0.4	1.5
GDP per Capita in USD	46,858	46,463	51,176	47,375	53,255	54,369	58,638	57,829
Exchange Rate (yr avge, USD-EUR)	0.9	0.9	0.8	1.0	0.9	0.9	1.0	1.0
Inflation (annual avge, %)	1.4	0.4	3.2	8.7	6.0	2.3	2.2	2.5
Purchasing Managers' Index (PMI)	51.1	46.3	55.3	50.4	49.4	48.6	N/A	N/A

*Source: Haver Analytics / Dun & Bradstreet**

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Credit Environment:

Risks and Opportunities

- Germany is facing significant growth challenges, structural impediments, and inflexible fiscal policies, which make its pursuit of economic turnaround a distant and arduous process that requires radical policy reforms.
- Government debt is expected to reach 63.5% of GDP by the end of 2024, before declining slightly to 62.7% in 2025.
- Germany's debt-brake rule is regarded as a major impediment to the government's efforts to stimulate the economy through structured monetary support. Reinstated in 2023, this rule restricts federal borrowing to 0.35% of GDP and prohibits state-level borrowing.
- However, as Germany is facing renewed geopolitical challenges, focus on increasing defence spending to more than 2% of its GDP is likely to add fiscal strain, given its existing commitments to R&D, international aid, and green transition.
- Germany's private consumption (which accounts for nearly half of its GDP) has been on the decline amid inflation and export challenges.
- The country's exports are facing setbacks from US tariffs, while inflation continues to impact the economy.

Key Takeaways

- Monitor the extent and frequency of the European Central Bank (ECB) rate cuts, which are data-dependent.
- Be aware of the risk of non-payment, as the number of insolvencies is rising, albeit at a moderate rate.

Supply Environment:

Risks and Opportunities

- The country’s shift to renewable energy is overshadowed by political instability and potential disruption from a snap election, creating uncertainty for future policy.
- The end of Russian gas imports has disrupted the German energy sector, increased costs and hindered industrial output, making the transition to renewable energy more challenging.
- The country remains heavily dependent on imported raw materials, such as lithium, cobalt and copper, which are critical for its energy transition.
- Given that Mainland China supplies half of Germany’s lithium imports, a potential ban on lithium exports from Mainland China may threaten Germany’s industrial economy.

Key Takeaways

- Expect bankruptcies to remain elevated as firms struggle with soft demand and high borrowing costs.
- Take appropriate hedging measures against currency exposure, as these risks are elevated.

Market Environment:

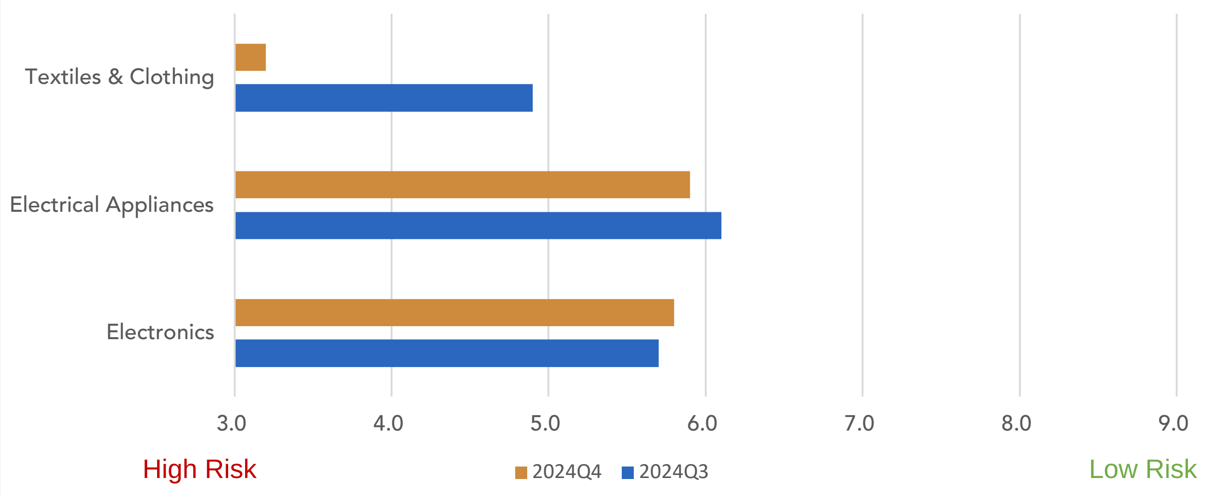
Risks and Opportunities

- Germany faces long-term challenges, including industry migration, a declining workforce, infrastructure issues, and limited innovation.
- In January 2025, producer prices rose by 0.5% y/y, marking three consecutive months of inflation.
- In December 2024, industrial production fell by 2.4% m/m and 3.1% y/y, reportedly driven by a decline in output from the car industry.
- Also in December 2024, import prices rose by 2% y/y and 0.4% m/m.

Key Takeaways

- Eurozone CPI inflation is expected to put the European Central Bank's 2% target to the test throughout 2024.
- Expect Germany’s low import tariff environment (applicable to most sectors) to remain in place for the foreseeable future.
- Keep an eye on energy policy, especially any directive aimed at restraining energy use to build up capacity.

Industry Index



Source: Dun & Bradstreet / HKECIC

Industry Trends

Textiles & Clothing

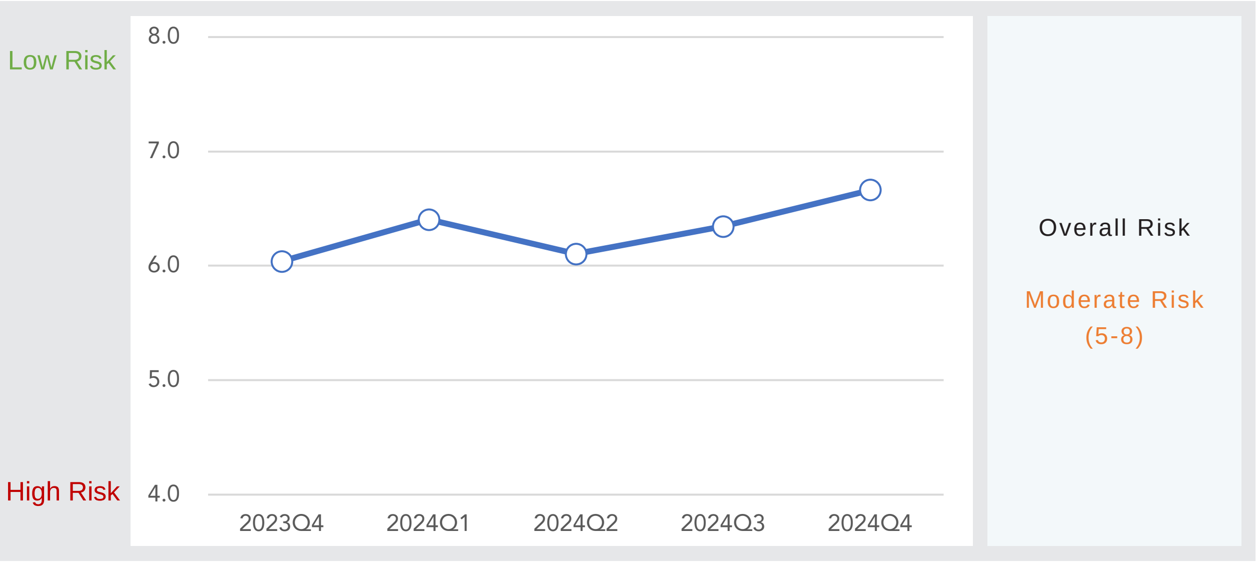
- The index for the German textiles and clothing industry experienced a sharp deterioration during the last two quarters of 2024, as local companies were hit by the ongoing weakness of the German economy, which saw company insolvencies climbing by almost 25% in 2024. A number of renowned German firms, including retail chain Galeria Karstadt Kaufhof, fashion brand Esprit Europe and Sinn, filed for insolvency during the year.
- Hong Kong's total exports of textiles & clothing to Germany declined by 16% y/y for H2 2024.
- In response to the escalating issue of textile waste, new regulations came into effect on 1 January 2025, mandating the separate disposal of textiles from general waste. Under the new EU directive, old clothes and used textiles are prohibited from being discarded in regular trash bins. These new regulations will impact the business of fast fashion retailers.

Electrical Appliances and Electronics

- The index for German electrical appliances and electronics has remained flat since Q3 2024.
- Hong Kong's total exports of electrical appliances and electronics to Germany decreased by 12.1 % y/y in H2 2024, reflecting weak local demand.
- In November 2024, the German electrical and digital industries exported goods valued at EUR20 billion. However, this represents an 8.6% decline in the deliveries abroad compared with the previous year. The decline was also significantly greater than the average decrease in the preceding ten months.

4.4 The United Kingdom

CREDIT RISK INDEX



Source: Dun & Bradstreet / HKECIC

Country Insight

The United Kingdom is recognised for its low business regulatory environment risk, and for having created an advantageous global landscape for private enterprises with a robust market infrastructure and pro-innovation regulations. The UK's demographic structure is somewhat better than that of continental Europe, but Brexit is restricting the inflow of young workers from the EU. Wage growth continues to outpace consumer price inflation, which should translate into stronger retail sales. The credit risk index has shown **mild improvement** since Q1 2024, albeit a slight decline in Q2 2024.

Recent Developments

- The Autumn Budget, announced in Q3 2024, aimed to unlock investment to boost growth by raising taxes to fund spending and a new industrial strategy.
- In mid-December 2024, the United Kingdom acceded to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free-trade area now comprising 12 economies including Singapore, Australia, Japan and New Zealand.
- Most regulatory changes announced as part of spending plans in the October 2024 Budget are set to take effect from April 2025.
- The UK is less exposed to US tariffs than the EU for its better diplomatic relations and smaller goods trade surplus with the US. It will not escape entirely though. It is exposed to sectoral tariffs (steel and aluminum so far) and the reciprocal tariffs. In 2024, UK's largest exports to the US included cars, pharmaceuticals, mechanical power generators, scientific instruments and aircraft. These industries are the most vulnerable to higher blanket or sector-specific tariffs.

Statistical Reference

Metric	2019	2020	2021	2022	2023	2024	2025e	2026e
Real GDP growth (%)	1.6	-10.4	8.7	4.3	0.4	0.9	1.0	1.5
GDP per Capita in USD	42,699	40,230	46,692	45,758	49,309	52,649	53,731	55,016
Exchange rate (yr avge, USD-GBP)	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Inflation (annual avge, %)	1.8	0.9	2.6	9.1	7.3	2.7	3.2	2.5
Purchasing Managers' Index (PMI)	N/A	52.0	55.9	53.0	46.4	52.5	N/A	N/A

*Source: Haver Analytics / Dun & Bradstreet**

** Data may be adjusted and normalised for the purpose of comparison across different countries, and therefore may not be entirely the same as those released by national statistical offices.*

Credit Environment:

Risks and Opportunities

- The Office for National Statistics (ONS) reported that Consumer Price Index (CPI) fell slightly to 2.5% in December 2024, down from 2.6% in the previous month.
- In Q4 2024, sterling weakened to USD1.28:1GBP, from USD1.3:1GBP at the end of Q3 2024. The loss of value is partly attributable to the strengthening of the US dollar following Donald Trump's victory in the US presidential election. Additionally, the slight slowdown in the UK economy is also weighing on the currency.

Key Takeaways

- The Bank of England (BoE) announced an interest rate cut to 4.5% on 6 February 2025, in response to a drop in inflation to 2.5%, which was lower than anticipated. The BoE has indicated that further rate cuts may be on the horizon as inflation continues to ease. However, the magnitude and pace of any future reductions will be carefully assessed at each meeting.
- Despite the BoE cutting rates at its recent meetings in November 2024 and February 2025, the outlook for UK's monetary policy remains uncertain. The central bank highlighted that since the February meeting global trade policy uncertainty and geopolitical risks had intensified, leading to greater financial market volatility while also clouding the inflation and growth outlook.

Supply Environment:

Risks and Opportunities

- Producer input price inflation has been dropping consistently for months, but price levels remain elevated.
- The minimum wage has risen by 6.7% to GBP12.21 per hour, which equates to an annual increase of GBP1,400 for a full-time employee.
- In early December, the Chancellor announced that the UK was seeking fresh ties with the EU.
- The UK acceded to the CPTPP on 15 December 2024, providing UK businesses with the opportunity of free trade with countries under the CPTPP comprising 12 economies including Singapore, Australia, Japan and New Zealand.

Key Takeaways

- Public transport workers are considering industrial action.
- The UK government aims to explore opportunities for trade with the EU and strengthen relationships with businesses on the continent.

Market Environment:

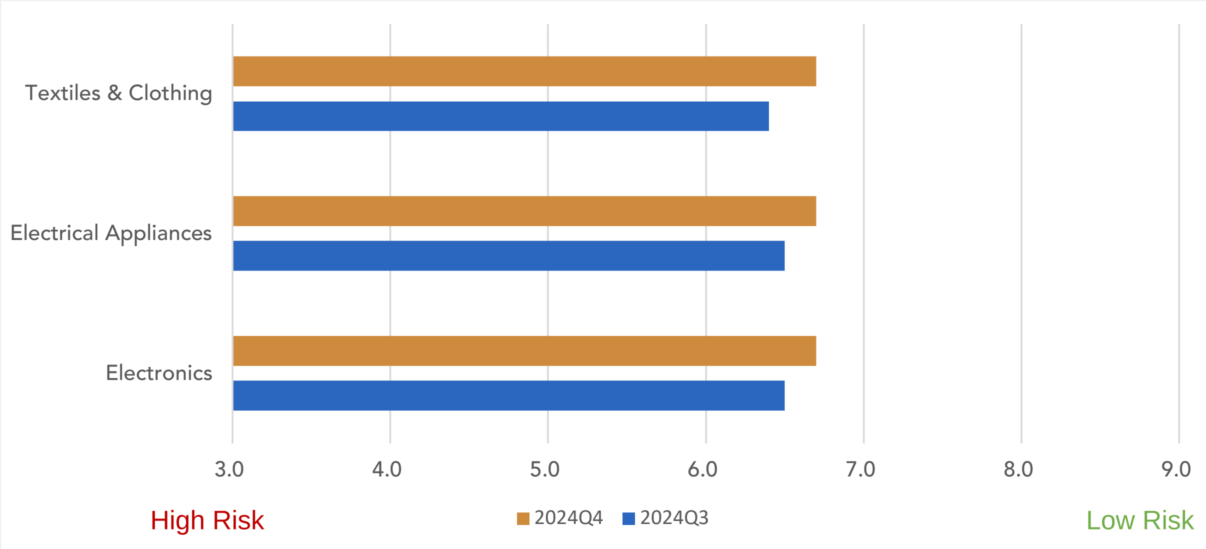
Risks and Opportunities

- Wage growth continues to outpace consumer price inflation, which should translate into stronger retail sales.
- A potential consequence of the rising staff costs announced in the Budget may be a decline in job vacancies posted in the lead-up to the festive season.
- In the long run, the government's commitment to relatively free trade is expected to have a positive effect on market potential.

Key Takeaways

- The UK's market potential is robust, as the country boasts a large consumer base with high living standards.
- The UK has successfully rolled over many EU free-trade deals with third countries and has also signed new deals.

Industry Index



Source: Dun & Bradstreet / HKECIC

Industry Trends

Textiles & Clothing

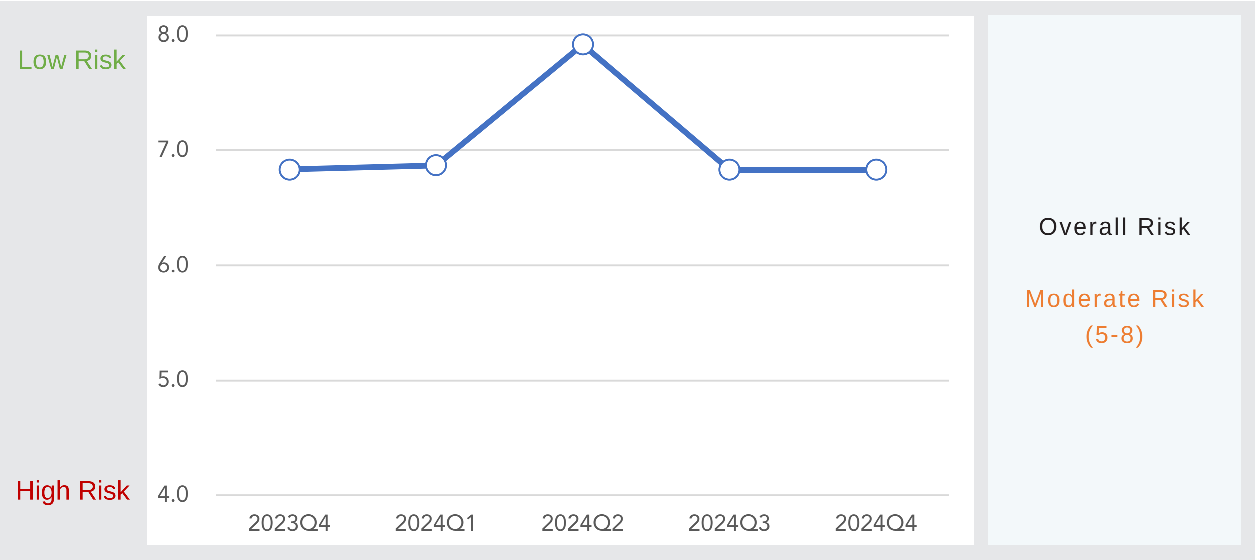
- The index for the UK textiles and clothing industry has shown mild optimisation since Q1 2024, albeit with slight fluctuations from that period.
- Hong Kong's total exports to the UK dropped by 26.8% y/y from July to December in 2024, with the exports of textiles-and-clothing-related products plummeting by 48.5%.
- Bankruptcies in the United Kingdom decreased from 1,962 companies in November 2024 to 1,838 companies in December 2024, according to the Insolvency Service, United Kingdom. New Look, which was once a giant in the British fashion retail industry had only 364 stores left after restructuring by 2025, and is set to close approximately 90 more.
- Data from the Office for National Statistics (ONS) reveals that in January 2025, the sales volume of non-food retailers, including department stores, clothing shops and home furnishings stores, decreased by 1.3% m/m. Notably, clothing retailers experienced a sales decline of nearly 2.4%, which was the most significant drop among the categories.

Electrical Appliances and Electronics

- The indice for the UK's electrical appliances and electronics indicate slight improvement in Q4 2024, compared with Q3 2024.
- Total exports of electronics and electrical products from Hong Kong to the UK increased by 11.9% y/y from July to December in 2024, influenced by a significant surge from September 2024. There was a continuous growth in the subsequent four months from September, with figures increasing by 23.2%, 36.1%, 20.3% and 3.7% y/y respectively.
- In the UK consumer electronics market, the mobile phone segment is the largest, with a market size of USD13.5 billion in 2024. With the ongoing development of communication technologies such as 5G and the constant upgrading of smartphones, this segment is expected to maintain stable growth in the future. In addition to that, the online penetration rate of the UK consumer electronics market is already relatively high, and is expected to continue rising in the future.

4.5 The United States

CREDIT RISK INDEX



Source: Dun & Bradstreet / HKECIC

Country Insight

The United States is the world's largest economy, with a population of almost 344 million and a GDP per capita exceeding USD80,000. The US is one of the most economically prolific markets and serves as the global centre for finance and technology. Of the overall risk, the credit risk index has **remained steady** in the US market since Q4 2023, driven by stable economic performance and sustained dollar strength.

Recent Developments

- President Trump was sworn in on 20th January 2025, with his policy priorities likely to include trade negotiations, deregulation, and tighter immigration rules.
- Businessman and entrepreneur Elon Musk has been appointed special adviser to lead the newly established Department of Government Efficiency, which aims to reduce wasteful spending, remove excess regulation, and restructure government bureaucracy to cut costs. This initiative may influence future public spending decisions.
- In 2024, the US real GDP grew at an annual rate of 2.8%, driven by consumer spending, exports, and federal government spending.
- In the January 2025 World Economic Outlook Update, released by the IMF, the US economy was forecast to grow at 2.7% in 2025 (against growth of 2.8% in 2024), supported by looser regulatory and fiscal policy. However, recent data showed that US consumer confidence was sliding sharpy over anxiety about both tariffs and inflation, and major retailers were lowering their expectations for the year, saying that customers were already pulling back on spending.

Statistical Reference

Metric	2019	2020	2021	2022	2023	2024	2025e	2026e
Real GDP growth (%)	2.5	-2.2	5.8	1.9	2.5	2.8	1.8	1.9
GDP per Capita in USD	64,374	63,472	70,013	76,101	80,474	84,486	88,284	91,535
Exchange rate (yr avge, USD)	-	-	-	-	-	-	-	-
Inflation (annual avge, %)	1.8	1.2	4.7	8.0	4.1	2.5	3.2	2.3
Purchasing Managers' Index (PMI)	N/A	56.1	59.7	50.7	51.2	53.7	N/A	N/A

*Source: Haver Analytics / Dun & Bradstreet**

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Credit Environment:

Risks and Opportunities

- The US dollar has gained value through Q4 2024 on the back of the strength of the US economy and the possibility of upcoming pro-growth and inflationary policies.
- The S&P 500 Index approached 6,100 in early December 2024, up almost 30% over the year to date, driven by the expectation stemming from job data that have eased worries about economic growth.
- A 10-year US Treasury yielded 4.2% in early December 2024, up from a recent low of 3.6% in mid-September 2024. Yields have risen on the back of market expectations that policy shifts by the new administration may boost deficits and inflation, though they remain lower than in Q2 2024, when they peaked at more than 4.7%.
- The public borrowing in the US should be monitored. Higher government borrowing tends to drive up borrowing costs, which may translate into higher interest rates on mortgages and loans.

Key Takeaways

- The market expects interest rates in the US to be held higher for longer, thus the financing costs for businesses are likely to remain high for the time being.
- The US economy is still growing at a solid pace, albeit with signs of slowing with weaker consumer sentiment and softer consumption data. The growth outlook is subject to considerable uncertainties surrounding tariffs and their inflationary impacts.

Supply Environment:

Risks and Opportunities

- Benchmark crude oil prices have continued to ease in Q4 2024, with Brent falling to USD73/bbl from USD85/bbl in Q2 2024.
- The labour market added 227,000 jobs in November 2024, marking a sharp rebound from the much lower figure in October. Over the past year, the US has added around 190,000 jobs each month, making the November figure relatively strong.

Key Takeaways

- The US remains active in instituting tariff and non-tariff barriers to trade, which should be taken into consideration in cross-border trade decisions.
- Monitor the legal challenges pertaining to the rules announced regarding gig economy workers and climate-related disclosure requirements.
- Announcements of potential mass deportations from the US and tighter immigration rules may restrict labour supply into the US.
- Monitor the security situation and supply routes in and around the Middle East.

Market Environment:

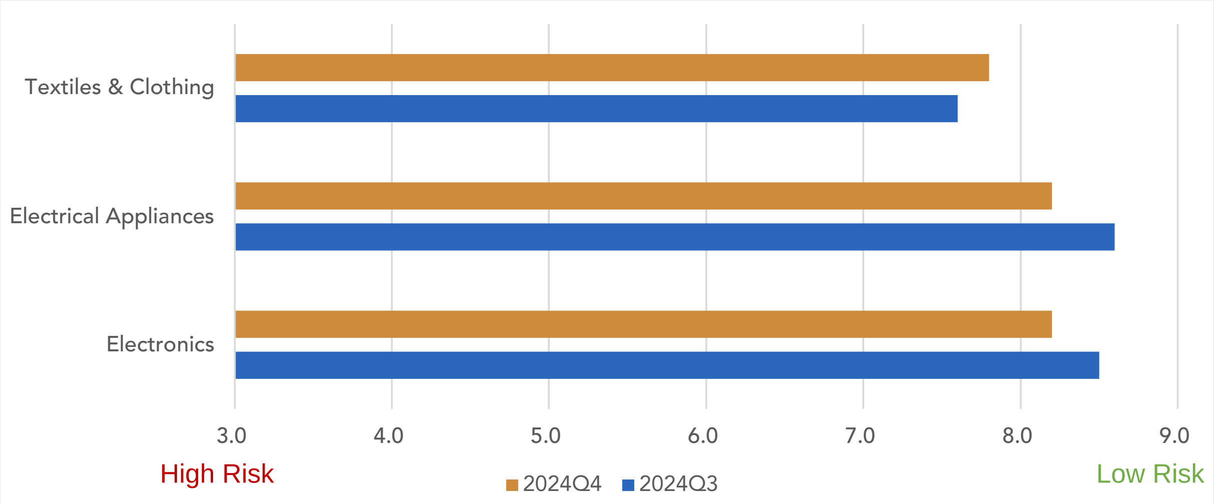
Risks and Opportunities

- US retail sales rebounded marginally by 0.2% in February, after declining 1.2% in January, as consumers pulled back on discretionary spending, reinforcing the growing uncertainty over the economy against the backdrop of tariffs and mass layoff of federal government workers.
- President Trump has announced plans to reshape the US trade policy by introducing an additional tariff on imports from multiple countries.
- The US has recently expanded its entities list to target more entities from Mainland China, Russia and Iran. It is also likely to widen the scope of sanctions and export controls in the wake of the Israel-Hamas conflict.
- The US-China technology rivalry is intensifying, signaled by TikTok's ongoing legal battle in the US and the restriction of Chinese access to cutting-edge chips.

Key Takeaways

- Potential incoming trade policies are expected to reshape markets and supply chains.
- The announcements regarding future US trade policy should be closely followed, as there may be significant discrepancies between the perspectives of the market and those of the policymakers.
- With US consumer sentiment sinking to a 2-year low in March, retail sales could struggle in the months ahead.

Industry Index



Source: Dun & Bradstreet / HKECIC

Industry Trends

Textiles & Clothing

- The index for the US textiles and clothing industry indicates slightly reduced risk in Q4 2024, compared with that in Q3 2024, thanks to the better credit conditions in the country.
- From July to December in 2024, Hong Kong's total exports to the US rose by 1.3% compared with the same period last year, though textiles and apparel exports slightly dropped by 5.7% y/y during the period.
- According to the Administrative Office of the US Courts, more than 500,000 personal and business bankruptcies were recorded in the 12-month period ending September 2024. Businesses accounted for 22,762 of these bankruptcies, reflecting an increase of 33.5% y/y.
- Research data revealed a significant downturn in luxury apparel and accessory spending in the first two months of 2025, signaling a potential shift in consumer behavior amidst economic pressures. Overall apparel, accessories, and footwear spending in the US declined by 2% in January and February, with the luxury sector experiencing a more drastic 7% drop, mirroring the 8% decrease seen in the luxury market throughout 2024.
- Some fast fashion retailers were also hit by mounting online competition. Forever 21's US operator had recently filed for bankruptcy for the second time in six years. Brands like Quiksilver, Billabong, and Volcom etc. also struggled and filed for bankruptcy in early 2025.
- The US has been cracking down on low-cost Chinese imports, and has recently announced to end the de minimis exemption for China, meaning that goods under USD 800 could no longer be shipped duty-free directly to consumers. This will primarily affect low-cost cross-border Chinese retailers like Shein and Temu.

Electrical Appliances and Electronics

- The indices for the US electrical appliances and electronics are facing slightly downside risk in Q4 2024.
- Total exports of electrical appliances and electronics from Hong Kong to the US decreased by 3.8% y/y from July to December in 2024.
- On 15 January 2025, the Bureau of Industry and Security (BIS) under the US Department of Commerce updated the export controls on advanced computing power. The upper limit of the chip specification for tape-out has been expanded from the previous 7 nm to 16nm or 14 nm. Moreover, 27 AI and computing power companies from Mainland China and Singapore have been added to the Export Control Entity List for stricter control. Enterprises now face increased uncertainties including tariff adjustments and changes in trade policies.
- Retail store closures have hit the highest level in 2024 since the pandemic, and the trend is set to continue in 2025. Electronics retail chains like Best Buy and GameStop have already announced their store closure plans.

ABOUT US

Hong Kong Export Credit Insurance Corporation
香港出口信用保險局

The Hong Kong Export Credit Insurance Corporation was established in 1966 under the Hong Kong Export Credit Insurance Corporation Ordinance (Chapter 1115). It was created by statute with the aim of encouraging and supporting export trade by providing Hong Kong exporters with insurance protection against non-payment risks arising from commercial and political events. Its contingent liability under contracts of insurance is guaranteed by the Government of the Hong Kong Special Administrative Region, with the statutory maximum liability currently standing at $80 billion. For more information on HKECIC, please visit http://www.hkecic.com/en

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