

CREDESCO

# GLOBAL RISK ATLAS

TURNING UNCERTAINTIES  
INTO **OPPORTUNITIES**



# Cooperation to defuse risks

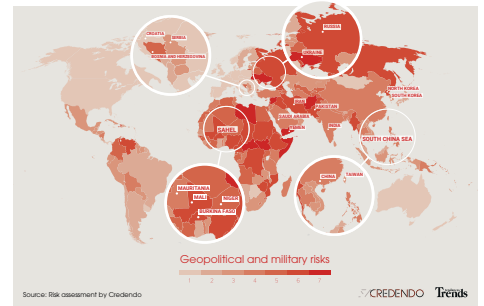
**ARMED CONFLICTS, CLIMATE CHANGE, INFLATION, DEBT AND DEMOGRAPHICS: WE HAVE ILLUSTRATED THE IMPACT OF THESE RISKS ACROSS FIVE WORLD MAPS. A QUICK GLANCE SHOWS US THAT AFRICA HAS MULTIPLE CONCURRENT RISKS WHILE NORTH AMERICA SEEMS RELATIVELY UNTOUCHED.**

**THIS MAY SEEM PARADOXICAL, BUT WE SHOULD NOT ONLY LOOK AT THESE MAPS FROM A STRICTLY GEOGRAPHICAL PERSPECTIVE. ON THE ONE HAND, THE FIVE RISKS WE HAVE IDENTIFIED INTERACT WITH EACH OTHER. GLOBAL WARMING HAS DEMOGRAPHIC CONSEQUENCES, WHILE THE ENERGY TRANSITION REQUIRES MAJOR INVESTMENTS AND THEREFORE INDEBTEDNESS.**

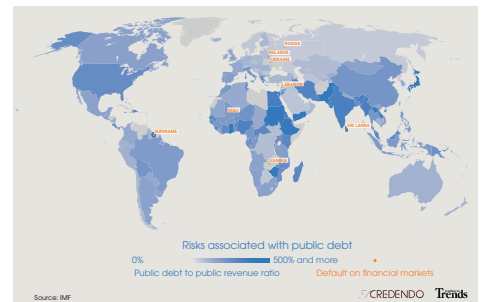
**ON THE OTHER HAND, THESE RISKS DEMAND PREVENTIVE SUPRA-REGIONAL, EVEN GLOBAL, ACTION. THERE IS NO POINT BEING TOP OF THE CLASS, OR HAVING THE RIGHT COLOUR ON ONE OR MORE OF OUR MAPS IF GLOBAL OUTCOMES ARE LACKING. IF DOZENS OF COUNTRIES DEFAULT ON THEIR DEBT, THEIR CREDITORS - SOMETIMES ON THE OTHER SIDE OF THE WORLD - WILL SUFFER THE CONSEQUENCES. IF GREENHOUSE GAS EMISSIONS CONTINUE TO RISE, EMISSIONS-REDUCING EFFORTS BY INDIVIDUAL COUNTRIES WILL PROVE TOTALLY FUTILE. THESE FIVE MAPS PRESENT FIVE FACETS OF A WORLD IN DANGER. ONLY BROAD COOPERATION WILL OVERCOME THESE PERILS.**

Christophe De Caemel, Journalist

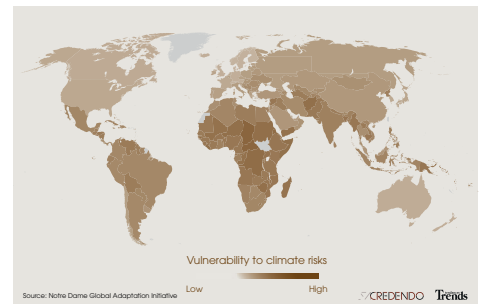
## 03 Geopolitical risks



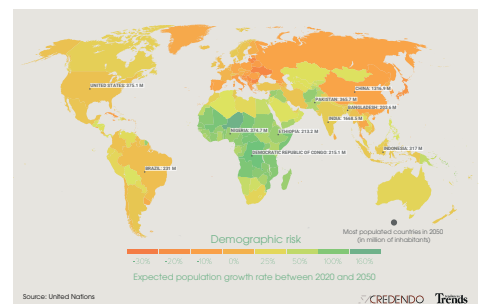
## 06 Public debt



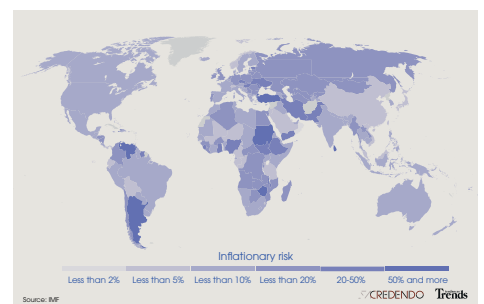
## 08 Global warming



## 12 Demographic risk



## 15 Inflationary risk



# Russia has brought political risk to the heart of Europe

**THERE ARE A DOZEN LATENT CONFLICTS ACROSS THE PLANET. STRENGTHENING REGIONAL COOPERATION ORGANISATIONS (THE EUROPEAN UNION, ASEAN, THE ARAB LEAGUE, ETC.) COULD HELP TO DEFUSE THEM.**

## 1. Where are the risks most acute?

The year 2022 provided a brutal reminder that it was still possible to have military conflict and attempts to annex a neighbouring state on the European continent. This will continue to be the case in 2023, with the war in Ukraine expected to continue for some time. But the general ambiance may change. 'The longer the conflict continues, the more Europe will face a dual problem', says Tanguy Struye, international relations professor and director of the Centre for the Study of International Crises and Conflicts (UCLouvain). 'The first problem is that of the public support, which is in danger of faltering because of the conflict's impact on the economy. Then there is the problem of military supplies, which we will need to replenish if we want to continue to help Ukraine.' If, in addition to inflation, there were energy shortages in the coming months, European governments could find



By launching its 'special military operation', Moscow has been weighing on the major geopolitical balances since February 2022

themselves facing acute social pressures. 'I'm not saying there would be armed conflict, but our countries could enter a period of instability', says Tanguy Struye. 'They could well change colour on your political risk map.'

You will have noticed the presence on our map on page 5 of another red point in the heart of Europe: one of the entities of Bosnia and Herzegovina (Republika Srpska) is at risk of secession, and this could have huge consequences in the Balkans. 'We certainly should not ignore the Bosnian and Serbian issue', emphasises Tanguy Struye. The Serbs, from both Bosnia and from Serbia, are still very close to Russia. In the current circumstances, Putin has an interest in fostering instability wherever he can, and Europeans need to pay attention'.

Another possible 'collateral damage' of the war in Ukraine is the resurgence of tensions between Armenia and Azerbaijan. This conflict has been periodically resurfacing for several years, but the new challenge is that Azerbaijan is now one of the alternatives to Russian gas, and this could potentially place Europe in a very ambiguous situation.

## 2. Where are things improving?

Tanguy Struye points to two sources of improvement. The first is Venezuela. With support from the United States, Norway and France, as well as neighbouring Colombia, dialogue has resumed between President Nicolas Maduro and his opponents. 'The battle is not won – we must remain vigilant – but I hope that on this map of political risks Venezuela won't be such a dark shade of red in the future', he says.

The second improvement is in Iran, where religious rule has been shaken by demonstrations. 'If this movement were to result in a revolution and the establishment

of democracy in Iran, this would change the game completely’, explains the professor. This would impact the overall balance in the Middle East and the Caucasus. We mustn’t forget the economic stakes involved either; this being one of the new Silk Roads. For me, Iran really is one of the key pivots of 2023. If a democracy were to establish itself there, the impact would be much greater for Europe – but in a positive sense this time – than the war in Ukraine’. Let’s not forget that the Iranian economy is one of the strongest in the region, thanks in no small part to its gas and oil. That said, let’s not get ahead of ourselves: the Arab spring in 2011 was a reminder that revolution does not necessarily mean improvement...

### 3. What changes can we expect in the next few years?

Unfortunately, open conflicts are expected to continue. Some may even spread. The jihadist presence in the Sahel, with groups constantly moving between Mali, Burkina Faso and Niger, is creating significant instability, even in neighbouring countries. ‘This whole region, already affected by the impacts of global warming, is being affected by this instability’, explains Pascaline Della Faille, Risk Manager at Credendo.

The conflict between Iran and Saudi Arabia for hegemony over the Muslim world is being reflected on the ground by the war in Yemen, and indirectly in Lebanon and Syria. The political situation in Iran could lead to some very significant developments. On the other hand, the elections scheduled for next year in Turkey may lead to an increase in the risks associated with this country, which is increasingly present in Africa and in the Muslim world.

Are latent conflicts going to come to the fore? We have already mentioned the Balkans. For the rest, Tanguy Struye does not see any new flare-ups in the short term. North Korea is not a particular concern. ‘Although they certainly have nuclear weapons, I think that is more about survival than expansion’, he says. ‘If it does not feel ‘provoked’ by the international community, North Korea will not do anything. It is up to us to play smart in how we respond to it’.

China’s often mentioned designs on Taiwan should not, according to Tanguy Struye, lead to military conflict in the immediate future. ‘China obviously has the military means to destroy Taiwan’, explains Tanguy Struye. ‘However, if its goal is reunification, what would be the



The evolution of the domestic political situation in Iran is one of the biggest unknowns of 2023

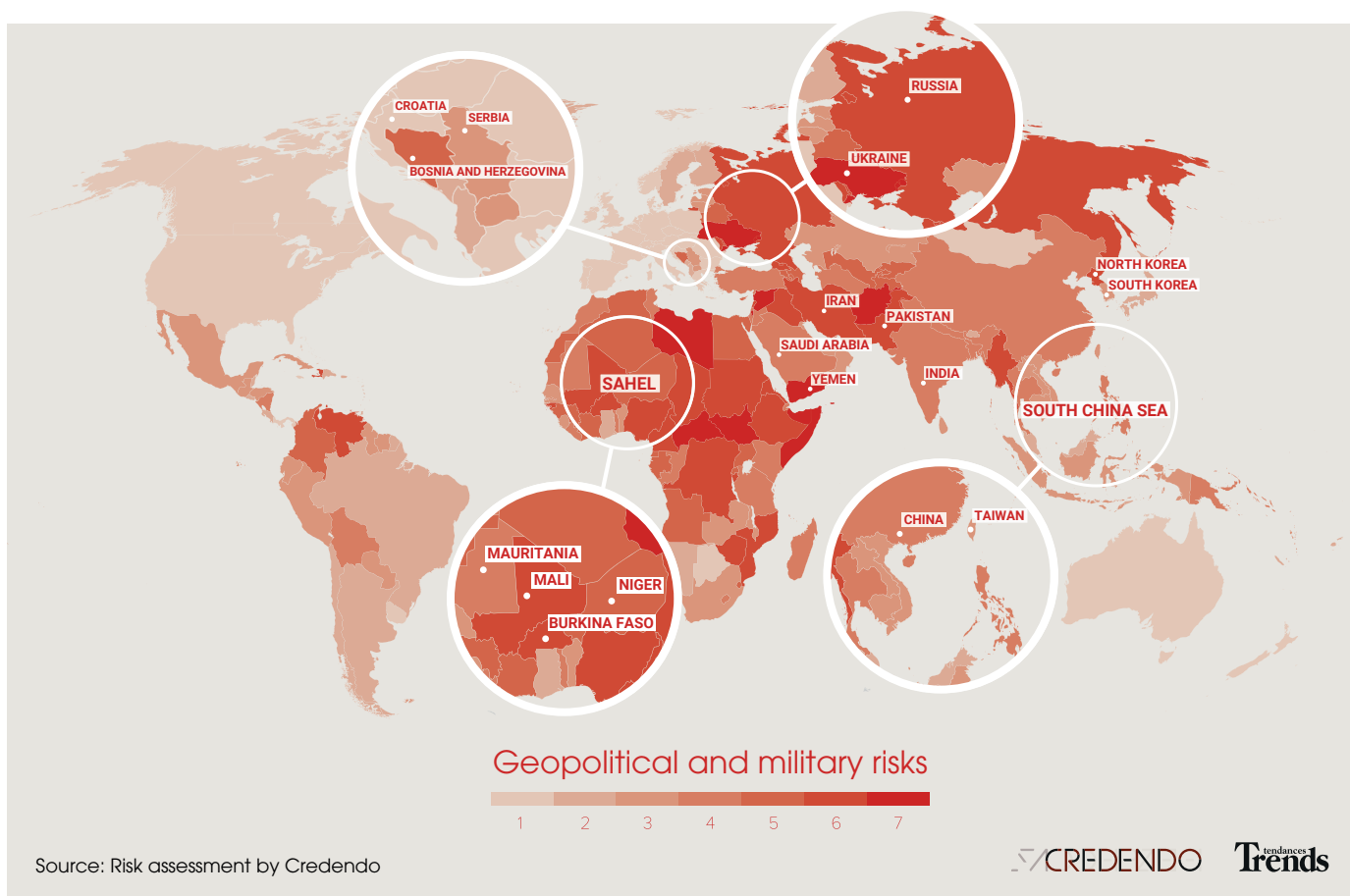
point of destroying Taiwanese factories that manufacture microprocessors for the entire planet? China is not currently ready to occupy and govern Taiwan. I’m not saying this will never happen, but it would be more likely in 2030–2035’. And by then so many things could have happened to upset these plans.

### 4. What actions should be taken to prevent these risks from materialising?

‘We are moving from a unipolar world – the Pax Americana – to a bi- or even multipolar world, says Nabil Jijakli, Deputy CEO of Credendo. ‘Traditional alliances are being challenged, sometimes with a lot of opportunism on the part of the protagonists.’ ‘This is one of the lessons of the war in Ukraine’, adds Tanguy Struye. ‘We still talk about the international community, but the fact is that only around 40 countries have applied sanctions against Russia. The opposition to Russia is very westernised, with countries like India, Turkey and Mexico not following suit.’

‘The optimistic version is that the progression towards a multipolar world could help Europe to assert itself politically, diplomatically and even militarily (the old chestnut of a Europe of defence has resurfaced more than ever). The pessimistic version is that, until the world finds a new equilibrium, there will be instability and potentially more open conflicts between two or more states. As we have seen, Europe could be affected again, in the Balkans’.

‘In this world order, Europe must play a card that it has too often forgotten: the diplomatic card’, says Tanguy Struye. ‘Diplomacy means negotiating, even with people



we don't like. In Europe, we are very reluctant to do this, in contrast to the United States, for example. But we need a more active, more dynamic diplomatic approach.' 'We need to move from a naive and divided Europe towards something more united', says Raphaël Cecchi, Risk Analyst at Credendo. This is in the interests of European countries, even if many are still under nationalist pressures. Access to raw materials is becoming a crucial challenge, particularly for the energy and climate transition. Europe must adapt to this situation.' What is true for Europe is also true for other parts of the world. If global governance, through the United Nations, has shown its limitations, perhaps it is time for more regional organisations? 'If we want to reduce political risks, one solution would be to strengthen regional cooperation entities, such as ASEAN or the Arab League', concludes Nabil Jijakli.

Christophe De Caevel

'FOR ME, HOW THE SITUATION IN IRAN EVOLVES REALLY IS ONE OF THE KEY PIVOTS OF 2023.'

TANGUY STRUYE (UCLouvain)

# Around 50 countries could default on their debt

**PUBLIC DEBT IS REACHING UNPRECEDENTED LEVELS, WHILE DEBT RESTRUCTURING SEEMS VERY UNCERTAIN. FORTUNATELY, INTEREST RATES ARE RISING MUCH SLOWER THAN INFLATION.**

## 1. Where are the risks most acute?

In recent months, eight countries have defaulted on their debt repayments. Around 50 more could follow, however, weakened by the global spike in inflation, the strength of the dollar and the rise in interest rates. These include Ghana, Cameroon, Sri Lanka, Pakistan and Lebanon. 'When a country defaults, it's terrible for that country. But if several dozens of countries default, the global impact then becomes very significant', explains Pascaline Della Faille, Risk Manager at Credendo. 'Around 50 countries being on the verge of defaulting is colossal', says Sylviane Delcuve, an economist at BNPP-Fortis. These high-risk debts are set to total as much as \$250 billion'.

## 2. Where are things improving?

'Unfortunately, I don't see any improvement', responds Sylviane Delcuve. Governments were called upon for support during the Covid crisis and, since then, nobody has been able to course-correct and get public finances back on track.' Although there was a brief recovery in 2021, now countries are having to help households and businesses cope with the rise in energy prices, invest in the ecological transition and, as if that were not enough, the invasion of Ukraine has made several European countries conscious of the need to bolster defence sector funding. 'Even Germany, which is usually the model of budgetary orthodoxy, has seen its finances weakened', continues Sylviane Delcuve. The system is holding up

'WE ARE TILTING TOWARDS A JAPANESE-STYLE SYSTEM, IN WHICH BANKS BUY BONDS ISSUED BY COUNTRIES THAT HAVE OVERSPENT.'

SYLVIANE DELCUVE (BNPP-FORTIS)

because central banks are printing money and financing this increase in public debt'.

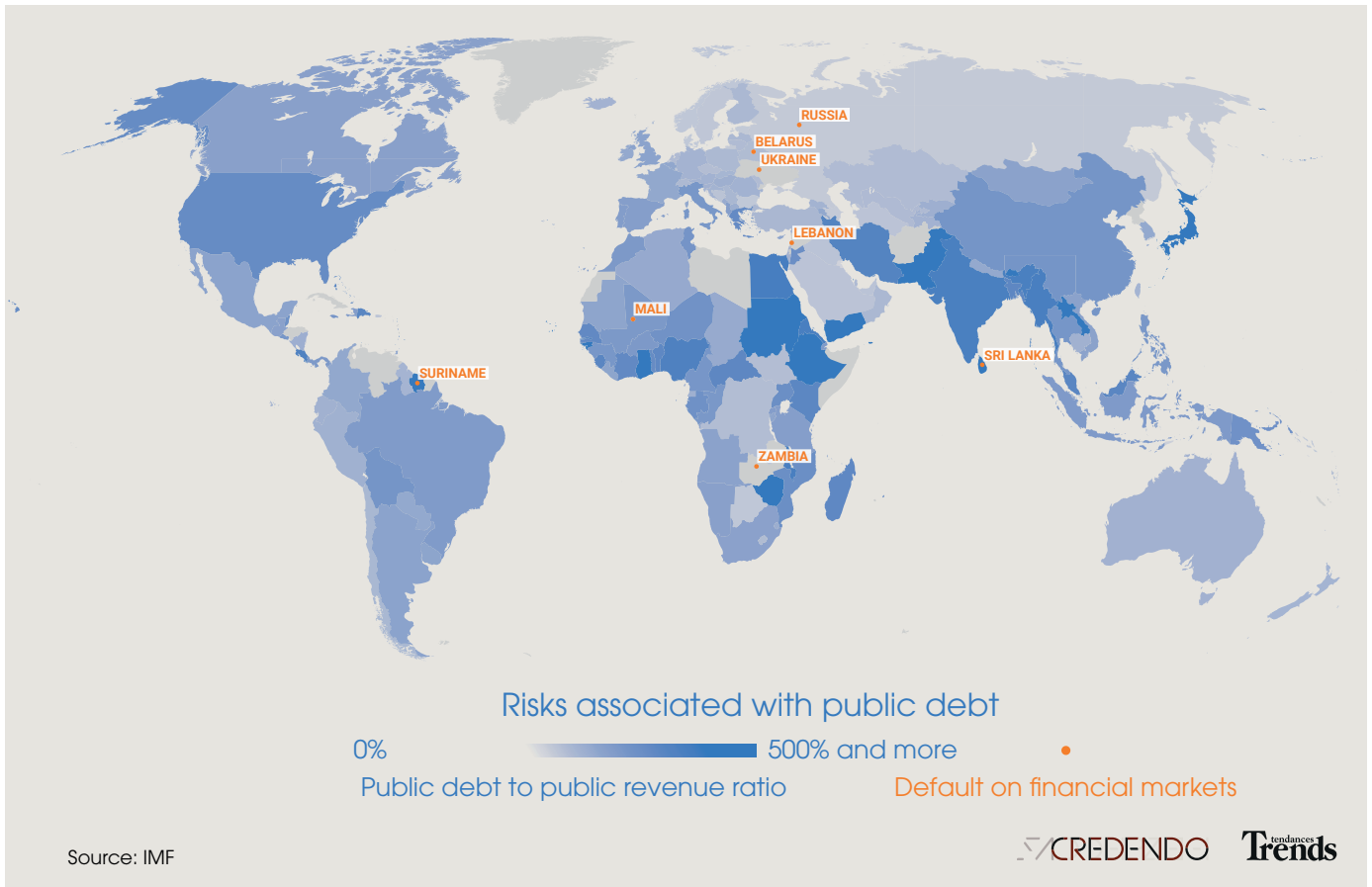
The exception, of course, are the commodity-producing countries, especially those that export energy products, such as Qatar, Angola and Indonesia.

## 3. What changes can we expect in the next few years?

The major challenge will be to avoid a build-up of defaults, which would inevitably have big systemic impacts. 'The problem is that restructuring debt becomes very complicated', explains Pascaline Della Faille. 'In the 1990s, loans were mainly held by the International Monetary Fund. Now they are held by banks, pension funds, or the Chinese government'. Bringing together all these stakeholders, who often have different interests, to prevent the situation spiralling out of control will not be easy.

Let's not assume that Europe will be spared. Sylviane Delcuve points out that Italian debt has reached 3 trillion euros. 'That's more than German debt, for a GDP that is half that of Germany's', she says. If interest rates rise, Italy will be unable to pay. Given the size of Italy's economy, it will not be possible to save it like Greece. This is a threat to the eurozone.'

China is not necessarily better placed. 'The Chinese debt bubble is continually rising', explains Raphaël Cecchi,



Risk Analyst at Credendo. ‘The authorities there are trying to avoid a collapse of the real estate market, but nothing can be taken for granted. There is a big question mark around China’s economic future.’

## 4. What actions should be taken to prevent these risks from materialising?

As we have seen, the restructuring of public debt seems very uncertain at the moment, even if the G20 appear to want to try to play a steering role. Reducing public spending is just as uncertain, given the environmental, and now military, challenges we face. ‘You can always cut back on some spending by making efficiencies here and there, but fundamentally I don’t see anyone embarking on austerity policies right now’, admits Sylviane Delcuve.

In her view, we are tilting – without saying it out loud – towards a Japanese-style system in which central banks and private banks buy bonds issued by countries that have overspent. ‘Japan has found a balance between the banking system and the government, and this has been functioning for around 30 years now’, she says. They started out with a debt that was 120% of GDP. It is now 250% of GDP, but things are working and nobody seems worried.’

One of the characteristics of this system is the decorrelation between interest rates and inflation. This is what’s happening in Japan and it’s what we are now seeing here. This year, inflation has jumped from 1% to 12%, while long-term interest rates only rose from 0% to 2%. ‘This is totally unprecedented for us’, says Sylviane Delcuve. ‘Since the 1960s, inflation curves and 10-year interest rates have tracked each other quite closely. Today we’re seeing a departure from that. The only explanation is the role of central banks, which have bought government-issued bonds. We have, I think, changed our economic model.’

Christophe De Caemel

# International cooperation – the only answer

**THE IMPACTS OF CLIMATE CHANGE ARE BEING FELT EVERYWHERE, BUT WITH INCREASED INTENSITY IN SUB-SAHARAN AFRICA AND SOUTH-EAST ASIA. YET EFFORTS TO CURB GLOBAL WARMING ARE STILL NOT ENOUGH.**

## 1. Where are the risks most acute?

'No country is immune to the effects of global warming', says Romain Weikmans, researcher and lecturer in climate policy at Université Libre de Bruxelles (ULB). However, the impacts vary greatly depending on geographical location (rising sea levels, heat waves, heavy rainfall, hurricanes, etc.), and can have very unexpected consequences. 'Last year's drought caused

rivers to run dry in Germany, nuclear power plants in France to shut down, due to lack of cooling water, and a loss of wind turbine output', says Nabil Jijakli, Deputy CEO of Credendo. The phenomenon is even more global than we sometimes think. That's why it's so urgent that we take action.'

The extent of the impact also varies depending on the level of preparedness. Romain Weikmans readily cites the example of the island shared by Haiti and the Dominican Republic: hurricanes cause far more damage on the Haitian side, where they lack the rescue services or medical teams with the same equipment as they have on the Dominican side.

While global warming is already impacting the entire planet, its direct effects are far more disastrous in Sub-Saharan Africa and South-East Asia. Madagascar is experiencing the first 'climate famine' in its history,



Climate change, a major challenge for tomorrow's world





**“WE HAVE GLOBAL LEADERS IN THE ENERGY TRANSITION. EUROPE HAS A WONDERFUL CHANCE TO STEP UP TO THE TASK.”**

NABIL JIJAKLI (CREDENDO)

following four consecutive years of droughts, and Pakistan has experienced terrible floods. ‘This country was already in a fragile financial situation’, explains Raphaël Cecchi, Risk Analyst at Credendo. I think this is one of the first big examples of the impact of the climate crisis on country risks, outside a series of small islands.’

## 2. Where are things improving?

‘Many industrialised countries have started to reduce their greenhouse gas emissions, which is a very positive sign’, according to François Gemenne, IPCC member and environmental geopolitics professor at the University of Liège and Sciences Po in Paris. ‘It is wrong to say that nothing is being done. But evidently not all countries are taking action, and global greenhouse emissions have continued to rise by 1% per year’. And this is the problem because, as Romain Weikmans is quick to point out, ‘one tonne of CO2 has the same impact, whether it’s emitted in Beijing, Brussels, New York, or anywhere else’.

As for improvements, François Gemenne also cites the ‘massive roll-out’ of solar power and, to a lesser extent, wind power, in emerging countries such as China and India. ‘Countries at high risk have also developed adaptation strategies that are increasingly robust’, he says. ‘Bangladesh, for example, now leads the way with its climate change adaptation’. Romain Weikmans agrees, pointing to how rapid response systems for hurricanes have been strengthened in South-East Asia. ‘People receive alerts and know how to react’, he explains. ‘Mortality caused by hurricanes and cyclones has fallen dramatically in countries such as Vietnam and the Philippines. This shows that responses are possible, at least to a certain degree. But, of course, we also need to tackle the causes of global warming’.

## 3. What changes can we expect in the next few years?

The improvements described above are a long way from being enough to hold back global warming. ‘Current scenarios are based on a warming of 2°C by the end of the century’ (editor’s note: this is the case for our map), explains Romain Weikmans. However, forecasts for greenhouse gas emissions take us well beyond that, at up to 2.8°C, or even higher. This changes the

stakes dramatically. ‘The most impacted continent, in the medium term, is Africa’, says Nabil Jijakli. ‘There are already large desert areas; problems with water access will get worse and forests will disappear’.

It is also a continent where the population is expected to increase sharply, making the challenge colossal. There is a degree of injustice about this: the regions where global warming is producing its first and most painful impacts are the ones with the least direct responsibility for that warming. Per capita CO2 emissions are as high as 14.8 tonnes in North America and 6.1 tonnes in the European Union, compared with only 1.5 tonnes in South Asia and 0.7 tonnes in Sub-Saharan Africa (World Bank data for 2019).

‘The future will depend on our ability to cooperate with emerging countries, to transfer technologies to them, and to support their investments in the green economy’, concludes François Gemenne. If they choose a carbon-based development pathway, the global outlook does not look promising.’ He emphasises this potentially tragic paradox for the future of the planet: the continent where solar energy is being rolled out most slowly is also the one that gets the most sunlight. ‘We really need to double down to expand solar energy, and renewable energy in general, in Africa’, he says. Otherwise, many countries will resort to their existing fossil fuel resources.’ And the problem will only get worse.

‘This century, the electrification of the African continent is pivotal’, according to Raphaël Cecchi. Depending on whether this is done using renewable energy or using fossil fuels, our entire future will be impacted.’ It could be a great opportunity for the European economy. ‘We have global leaders in the energy transition; we have great innovative companies and technologies that we can sell’, stresses Nabil Jijakli. Europe missed its opportunity with the so-called ‘Gafa’ companies, but it now has a wonderful chance to step up to the task. We have a part to play in preventing emissions associated with the African continent’s economic development. The fact that we’ve experienced the initial effects of global warming with droughts and flooding increases awareness and consciousness of the need for action’.

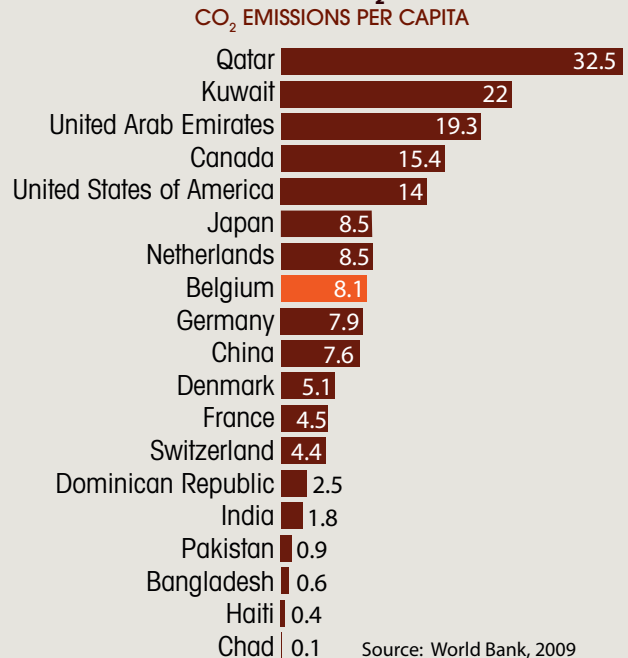
## F. GEMENNE: 'NATIONALISM IS CLIMATE'S WORST ENEMY'

World Bank data tells us that oil- and gas-producing countries (Qatar, Kuwait and Saudi Arabia) are the biggest per capita emitters of CO<sub>2</sub>. Meanwhile, the lowest emitters are the areas particularly susceptible to the effects of global warming, such as Sub-Saharan Africa and Haiti.

These rankings clearly serve a purpose, by highlighting responsibilities. But they also face a double stumbling block: a tendency to do nothing, while those that are polluting more than us do nothing, while also neglecting demographic realities. 'On a per capita basis, the Chinese emit almost half as much CO<sub>2</sub> as the Americans', notes Nabil Jijakli. 'But when you multiply those numbers by 1.3 billion or 300 million inhabitants, that fundamentally changes the outlook. There is a great deal at stake in emerging countries with large populations. Either they behave virtuously with their emissions, or we are all heading for something alarming'.

'Unfortunately, we tend to focus on our own emissions and on reducing them, and do not do enough work on others countries' emissions', adds François Gemenne. If we could try to reduce overall greenhouse gas emissions, and not just our own, we would be taking a big step forward. Nationalism is climate's worst enemy. If everyone stays focused on what's happening within their own borders, we will not succeed. We have no choice but to cooperate. We can discuss COP meeting formats and arrangements, but we need action at a global level. Belgium's climate future depends as much on what happens in Brussels as it does in Jakarta, Cairo or Lagos.'

### QATAR, BY FAR THE LARGEST PER CAPITA CO<sub>2</sub> EMITTER



## 4. What actions should be taken to prevent these risks from materialising?

There are two kinds of action. There must be upstream action on the causes of the problem, by accelerating the reduction of greenhouse gas emissions; and downstream action, by strengthening defences against natural phenomena, which will inevitably intensify in the coming decades. We have seen this with the measures taken in certain countries in South-East Asia, for example, which could inspire others.

According to Romain Weikmans, our regulations will need to be adapted to limit the damage caused by rising waters, seas and rivers. 'Will land use planning need to be reviewed to prevent building in high-risk areas close

to riverbeds or even, increasingly, close to seafronts?', he asks. In France, there are even questions around whether certain people should be subject to compulsory purchase orders, in return for (at least partial) compensation'. The ULB researcher cites the example of Lacanau, a wealthy seaside town in south-west France where the coastline is expected to recede by 50 metres by 2050. Work has begun to reinforce the sea wall, but will probably not be enough to guarantee the safety of all the (often very luxurious) constructions on the sea front. 'In these cases, who will be compensated and to what extent?', asks Romain Weikmans. Rising sea levels are already being seen in France, in the United Kingdom, in the Netherlands and even in Belgium. At some point, building sea walls

'THE FUTURE WILL DEPEND ON OUR ABILITY TO COOPERATE WITH EMERGING COUNTRIES'.

FRANÇOIS GEMENNE (ULIÈGE AND IPCC)

everywhere will not be enough, and certain areas will probably have to be abandoned.'

As for upstream actions, François Gemenne proposes three things. Firstly, he stresses the urgency of moving towards increased cooperation to combat this global phenomenon (see also accompanying article). This is in line with what has already been said about the critical importance of investing in Africa's low-carbon development. Then, François Gemenne suggests forgetting medium- and long-term targets for defining pathways. 'Whatever happens, neither you nor I will be there to see the target of 1.5 or 2°C by 2100', he says. 'We must focus on pathways, with specific milestones that help us change course if necessary'. Finally, he invites stakeholders to look at combating climate change as

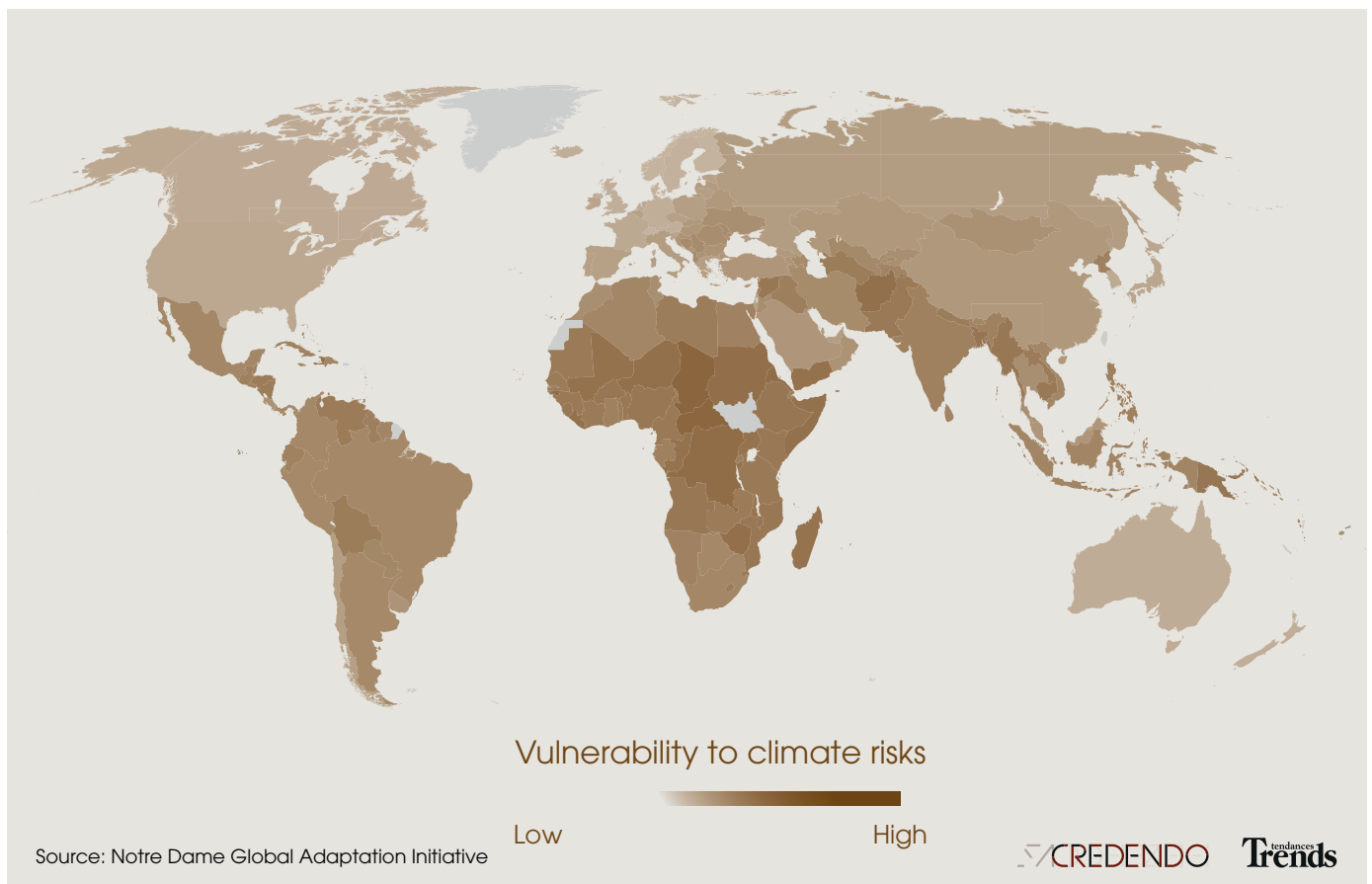
**'MORTALITY CAUSED BY HURRICANES HAS FALLEN DRAMATICALLY IN COUNTRIES SUCH AS VIETNAM AND THE PHILIPPINES. THIS SHOWS THAT RESPONSES ARE POSSIBLE.'**

ROMAIN WEIKMANS (ULB)

'a project that drives us forward and into which we must put all our energies', rather than as 'a constraint against which we always try to do as little as possible'.

Could technology provide the answers, with investment in research to invent solutions to the climate challenge? 'I hope that we can get there, that the hydrogen plane or nuclear fusion – to give two examples – become a reality', answers François Gemenne. But this may come far too late. We have about 10 years to change course; we cannot bank everything on these technological solutions. This cannot be another excuse to avoid rethinking our lifestyles and consumption patterns.' He also cites Bertrand Piccard's project, with its 1,000 clean and profitable solutions. 'We already have the technology needed to achieve the targets set out in the Paris agreements', concludes François Gemenne. What is missing is the commitment to deploy them, because we come up against conflicting interests. These technologies are also not yet widely available in the countries of the South.'

Christophe De Caemel



# The challenge: managing Africa's overpopulation

**THE REGIONS THAT ARE EXPERIENCING THE HIGHEST DEMOGRAPHIC GROWTH ARE ALSO THE ONES MOST AFFECTED BY GLOBAL WARMING. THIS IMPACT WILL INCREASE MIGRATION PRESSURES, PRIMARILY TOWARDS EUROPE.**

## 1. Where are the risks most acute?

The demographic risk is twofold. In certain parts of the world, population growth is putting pressure on access to resources. This is the case on the African continent and, to a lesser extent, in southern Asia. The African population is expected to jump from 1.5 billion to 4 billion by the year 2100. 'This is the key challenge', according to Nabil Jijakli, Deputy CEO of Credendo. 'Because sub-Saharan Africa is also the area where the effects of climate change will be most painfully felt, this will lead to migration flows that will need to be managed. That's the scenario we face'.

François Gemenne, IPCC member and environmental geopolitics professor at the University of Liège and Sciences Po in Paris, also points to India's demographic growth. 'We have high birth rates in an area that is very exposed to climate change impacts, and which is experiencing quite rapid growth', he says. 'When and how will the growth and demographics curves intersect? This is a crucial question for the climate's evolution.'

In other parts of the world, populations are declining. This is already evident in the Balkans, in China (whose one-child policy has thrown the population pyramid completely off balance), in Japan and, in the long term, it could affect all of Western Europe. 'Revitalising the economy of a country with an ageing population is much more complicated than it is with a young population', says Sylviane Delcuve, economist at BNPP-Fortis. 'These

trends are not easily reversed. But I think that Covid accentuated this fundamental trend of having fewer children'.

'We don't yet realise to the extent to which Chinese population growth will collapse', adds François Gemenne. '11 million children were born in China last year – this is the lowest figure since 1978. This will undoubtedly help to reach the peak of greenhouse gas emissions faster than expected, which is somewhat good news, but it also poses a lot of other problems.'

## 2. What changes can we expect in the next few years?

We have just crossed the threshold of 8 billion human beings on the planet. The United Nations has forecast several scenarios for the year 2100. The most frequent scenario predicts 11 billion inhabitants at the end of the century. 'This will increase pressure on resources and could lead to more pandemics', warns Raphaël Cecchi, Risk Analyst at Credendo. 'We tend to want to have the same lifestyle. If we had a more rational approach to the limitations of the planet's resources, we would probably be able to absorb this population growth'.

'The African population will more than double', adds Tanguy Struye, director of the Centre for the Study of International Crises and Conflicts (UCLouvain). 'We will have a young population directly affected by climate change and often living in failed states. If we do not invest heavily in Africa's development, we will pay the price in 10 or 15 years' time. This is no 'Black Swan'; we know all too well that we need to act, and yet Africa has disappeared from most of our radars. We were able to free up resources to support Ukraine, so why can we not



'POPULATION GROWTH WILL INCREASE PRESSURE ON RESOURCES AND COULD LEAD TO MORE PANDEMICS'

RAPHAËL CECCHI (CREDENDO)

do the same for the Pan-Sahel? The time to be worried is now'.

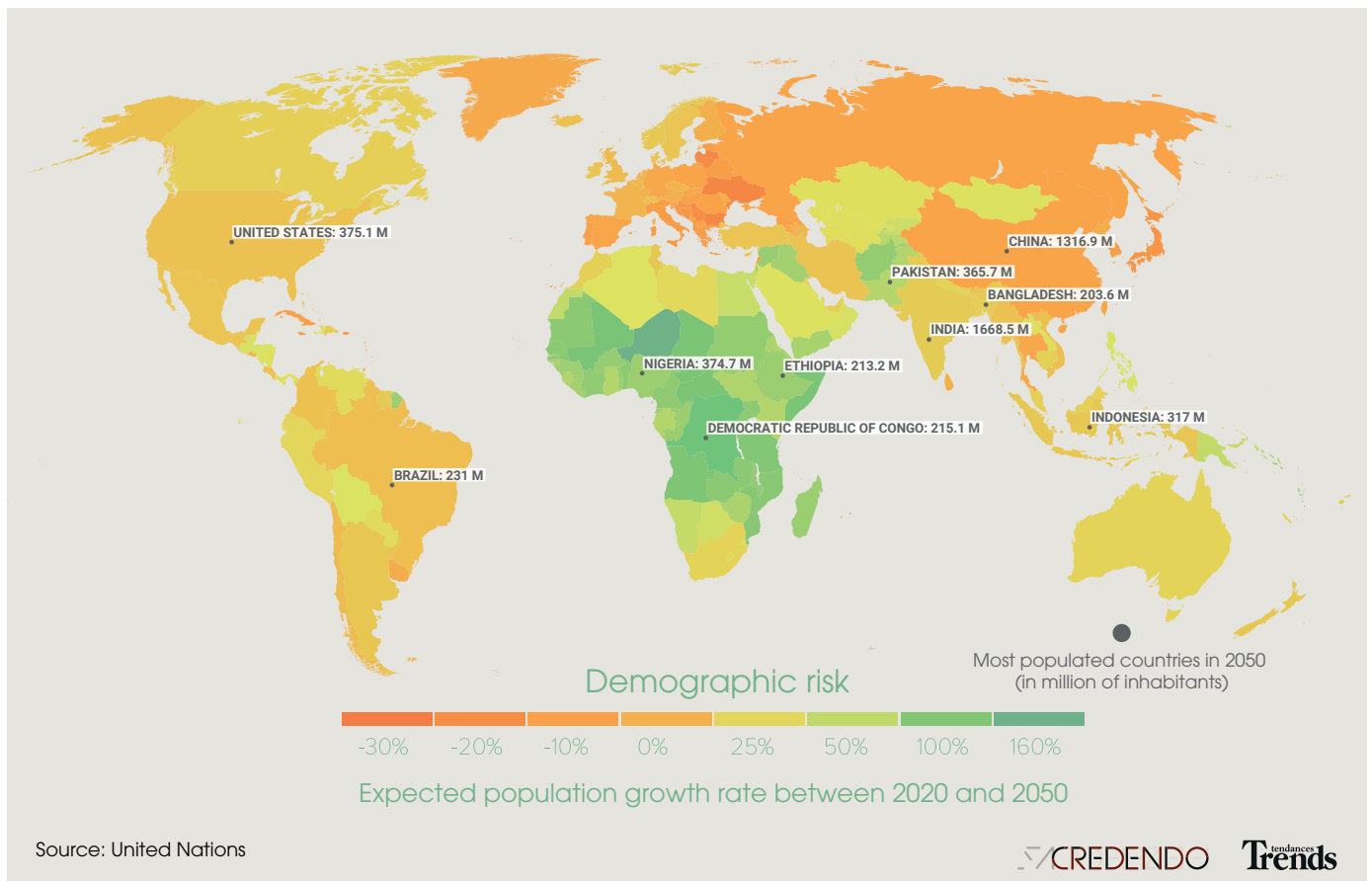
Tanguy Struye also points out that Europe has the opposite problem, citing the alarming figure of 10 million job vacancies in Europe in the coming decades. 'The debate on immigration is therefore set to intensify in the coming years', he says.

It should also be noted that the American continent and Australia appeared to be spared from demographic risk, whether upwards or downwards.

### 3. What actions should be taken to prevent these risks from materialising?

The scenarios for our demographic future invite us to look at trade-offs and population displacement from overpopulated areas towards those that are declining. 'Regulated immigration is part of the solution to an ageing population in certain areas of the world, and also to climate change', says Nabil Jijakli. 'This is clearly positive, provided there is indeed regulation, and not this improvised approach we've seen in recent years in our migration policies'.

Where population growth needs to be slowed down, mainly in Africa and parts of Asia, economic development seems to be the best lever. This is why Tanguy Struye advocates for heavy investments in Africa. History shows us that economic growth facilitates women's access to





Africa's population is expected to increase to more than 4 billion by 2100

education and couples' access to contraception. More generally, it also allows families to stop having to use their children as tools of production.

Rebooting population growth seems more complicated. Pro-birth rate policies rarely generate the desired effects. 'I think it's linked to people's conception of the future', concludes François Gemenne. 'A generation or two ago, people believed that their children would have a better, easier life than their own. This has been completely overturned. We see it with all these young people who do not want to have children, including for environmental reasons.' He therefore argues that we should inject hope into political narratives, in order to break 'this air of despair that is spreading through the population'. 'Let's stop these defeatist narratives; there should be no suggestion that nothing can be done, that nothing can move forwards', he insists. 'Actions are being taken at different levels – they need to be publicised and momentum scaled up. Businesses, for example, are taking action: they realise that the economic transition is in their interests. They often have more effective levers than states, because they can plan their actions and, for large companies at least, deploy them beyond their borders.'

Christophe De Caemel

# Inflation: 2022's unwelcome surprise

**THE PEAK IN INFLATION MAY BE BEHIND US, BUT OUR ECONOMIES WILL HAVE TO RELEARN TO LIVE WITH INFLATION. AND THAT'S NOT NECESSARILY A BAD THING.**

## 1. Where are the risks most acute?

This is the most balanced of our five maps, with the least noticeable divide between large high-risk geographical areas. The surge in inflation is affecting almost the entire planet, with some notable exceptions such as Japan and China. It stems from the Covid crisis, and its repercussions on supply chains and the rapid recovery in 2021. This led to pressures on the prices of raw materials, and everything spiralled with the war in Ukraine and its direct impact on energy prices. 'This is 2022's unwelcome surprise', confirms Sylviane Delcuve, an economist at BNPP-Fortis. The war in Ukraine has worsened a situation that was already there in 2021. What happened to

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**'COMPANY MARGINS ARE UNDER PRESSURE – THEY MUST BE SUPPORTED TO MAINTAIN EUROPE'S INDUSTRIAL FABRIC.'**

PASCALINE DELLA FAILLE (CREDENDO)



the global economy with Covid and our exit from the pandemic unsettled everything.'

This overall situation is worse in countries like Turkey and Argentina, which have espoused somewhat unorthodox budget policies in the hope of boosting growth. 'High inflation negatively affects the entire population, and that often leads to social problems', explains Nabil Jijakli, Deputy CEO of Credendo. 'We should remember that it was the hunger strikes that gave rise to the Arab Spring in 2010–2011.' We are already seeing it in certain countries in Latin America, such as Panama and Peru, but also in Kazakhstan. The most brutal impact of this high global inflation is, however, on the populations of Africa. 'In several African countries, an inflation problem is a survival problem', says Sylviane Delcuve. And this is truer now than ever, now that this continent is being affected by global warming. 'People are just trying to survive. They're trying to find a future somewhere else, but that could increase migration pressures in Europe.'

## 2. Where are things improving?

The abrupt spike in inflation worldwide makes it very hard for states to avoid. However, Raphaël Cecchi, Risk Analyst at Credendo, notes some improvements in South-East Asia. 'Inflation remains under control there, because these countries are close to their main supply sources and can supply themselves with energy quite readily', he explains. 'Several countries in these regions have fundamentals that are not too bad, and can consequently release food subsidies for the most vulnerable populations. That's what India is also managing to do.'

A little further north, in China and in Japan, inflation is not experiencing the same rapid rise as in Europe. In Japan, this is because of its specific economic model (see the section on debt), while in China it is because

it's experiencing an economic slowdown. 'China is experiencing the opposite problem to us', explains Sylviane Delcuve. 'Its problem is economic momentum, and it is trying to reboot its economic machine by lowering interest rates, while we're raising them in order to control inflation.'

### 3. What changes can we expect in the next few years?

'The period of low inflation is over, and we should not expect it to fall below 2% in the coming years.' Nabil Jijakli confirms that our economies will have to relearn how to live with high inflation. There are several trends pushing prices up. First of all, there's the movement towards a degree of deglobalisation, which began during the Covid crisis. If production is repatriated to Europe to limit costs and the climate change impact of shipping, this will logically translate into higher prices than Asia-based production. Secondly, there are geopolitical tensions that encourage certain supply chains to be reassessed and broken up, no longer for reasons of cost or reliability, but for clearly political reasons. Finally, there is the decarbonisation of the economy. 'This greatly increases demand for certain materials and goods, and that logically pushes their prices up', says Raphaël Cecchi. This decarbonisation also requires huge investments and, as many industrialised countries are launching their plans simultaneously, that fosters inflation.

The return of inflation is not necessarily a bad thing for the economies of industrialised countries. 'The world works better with a bit of inflation. The 2% we've had in recent years was perhaps too low', argues Sylviane Delcuve. 'The shock we've experienced this year has obviously been way too fast. There was a spike that was noticeable almost overnight in our shopping prices. Central banks are trying to correct course by increasing rates and I think this will work. We have passed the peak of inflation, and if we can stabilise at between 3 and 5%, that wouldn't be so bad. It's even quite beneficial for indebted countries, because this level of inflation makes it possible to gradually eat into debt.'

Nabil Jijakli broadly agrees with this analysis. However, he points to a stumbling block for European economies. 'In contrast to the United States, our inflation is imported', he explains. However, monetary policy is largely powerless in the face of inflation stemming from energy

and commodity prices. But it could be effective against another risk that awaits us: second-round inflation. Whether it happens automatically, as in Belgium, or is negotiated, as seen amongst our neighbours, wages tend to follow the price increase curve. This in turn generates inflation, with a risk of the spiralling we saw in the 1980s.'

### 4. What actions should be taken to prevent these risks from materialising?

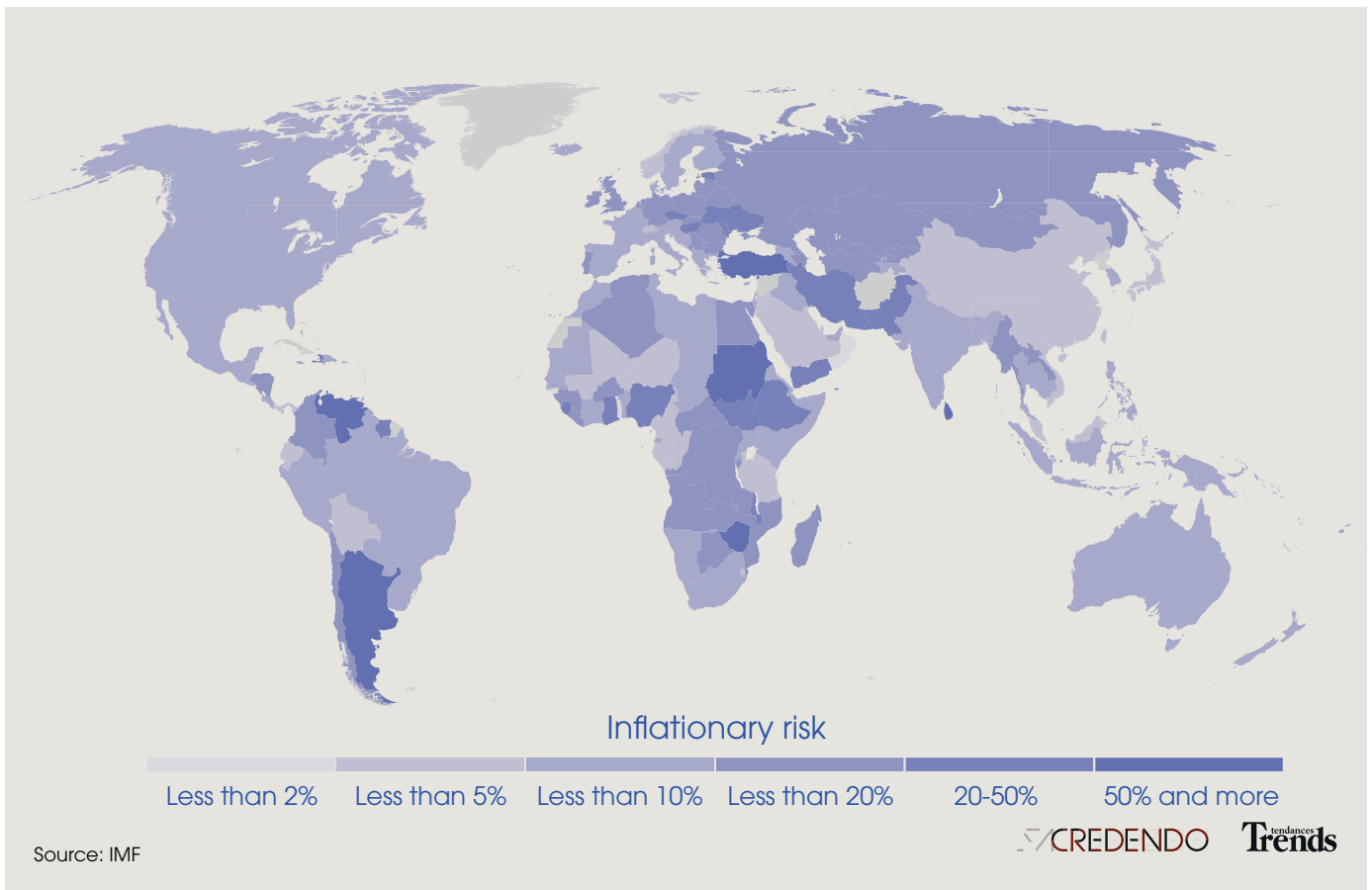
Monetary policies can help to limit inflation, but will probably not cancel it out. This situation is extremely dangerous for many companies, which, as our Export Barometer has again shown, cannot all pass on the rise in energy prices in their selling prices. 'Company margins are under pressure', says Pascaline Della Faille, Risk Manager at Credendo. 'It is essential to ensure these companies are supported, to maintain Europe's industrial fabric. The United States is aware of this and is going to great lengths to support its industries.'

Sylviane Delcuve also fears an economic catastrophe in early 2023, with an explosion in the number of bankruptcies. The food industry has raised the alarm, in bakeries and butchers for example, but heavy industry (cement works, glass works, etc.) is also now at risk because of high energy prices. 'The real challenge for Europe is to stabilise energy prices', she says. 'We are currently importing liquid gas from the United States. This will help us to get through winter but it costs a fortune. We are preparing the ground for our energy independence, but the process may be very slow and costly. Reversing



Energy transition requires major investments





## 'THE REAL CHALLENGE FOR EUROPE IS TO STABILISE ENERGY PRICES'.

SYLVIANE DELCUVE (BNPP-FORTIS)

nuclear shutdown appears more complicated than expected, and attempts to cap prices are coming up against the producers lobby.'

It's a pity that this energy transition was not implemented more proactively, and that solutions must now be devised in a hurry. Just as it's a pity that our economies were not better prepared for the return of inflation. 'The Central Bank has been injecting liquidity into the European economy for around 10 years now', says Sylviane Delcuve. 'When money is being printed like that, at some point there will be inflation. There would probably have been an inflationary spike even without Ukraine. But the shock came very suddenly, almost without seeing it coming. Geopolitical experts were telling us there was a Russian threat to Ukraine, but when it's so far away nobody wants to believe it. The same is probably true now for China and Taiwan.'

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