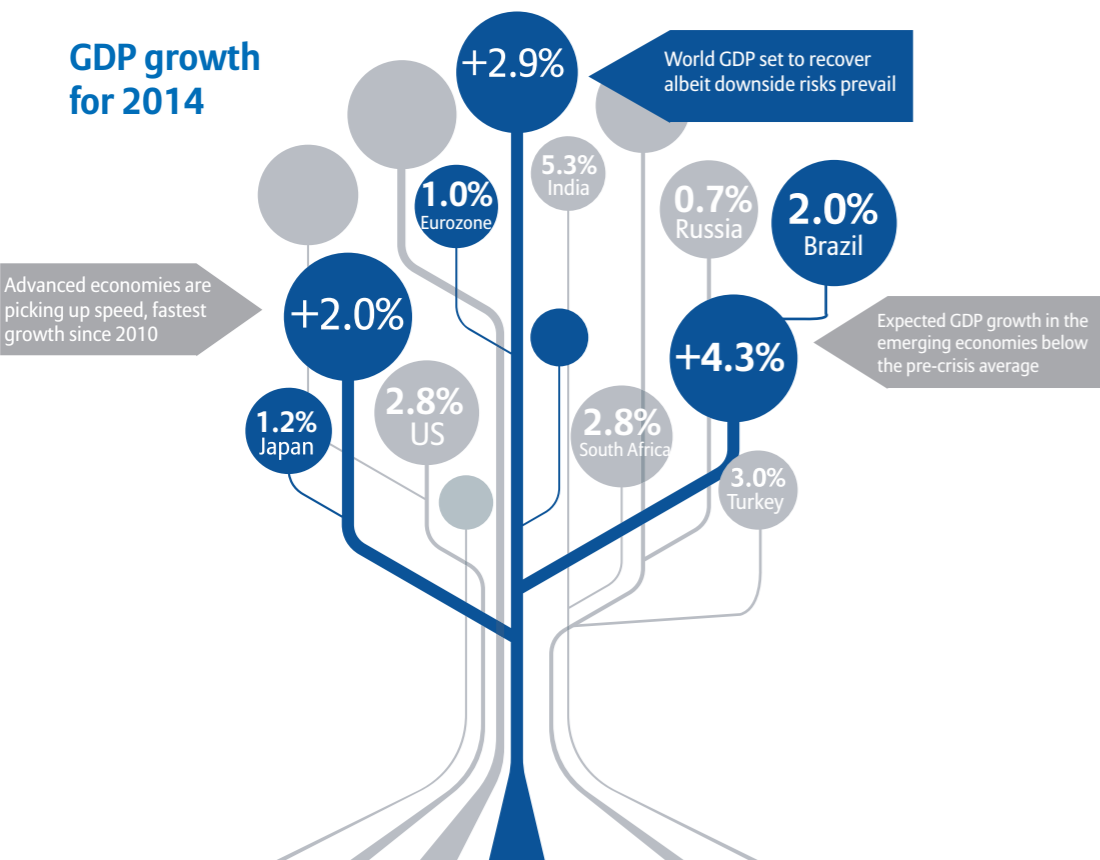


# Hot, bright and soft spots: who could make or break global growth?

## GDP growth for 2014



## Diverging fates in the emerging economies



- The ability of emerging economies to weather the Fed Quantitative largely depends on their financial fundamentals.
- They have been able to keep the exchange rate broadly stable without having to pump huge amounts of FX reserves into the market or increasing policy rates substantially.
- India and Brazil had to use their respective economic toolkits in order to restrain capital outflows, prevent exchange rate depreciation and keep inflation under control.
- India, Indonesia and Brazil steadily increased their policy rates over the second half of 2013, cushioning the impact on the real economy.
- Turkey waited until January 2014 to increase its key one-week repo rate by 550bps (to 10%).

## The 'Fragile 10' - became the 'Improving 4', the 'Precarious 5' and Argentina

In order to determine which emerging economies are most vulnerable in the short-term, we classified countries according to their fragility.

### The 'Improving 4':

#### Chile, Mexico, Colombia & Philippines

All managed to control net capital flows without having to increase policy rates. The depreciation of their currencies renowned manageable and their FX reserves broadly stable.

### The 'Precarious 5':

#### Indonesia, Brazil, South Africa, India and Turkey

Their internal vulnerabilities were combined with a loss of confidence in emerging markets. These countries had to implement measures to strengthen their positions with varying success. The fact that these countries face elections this year contributes to increased uncertainty.

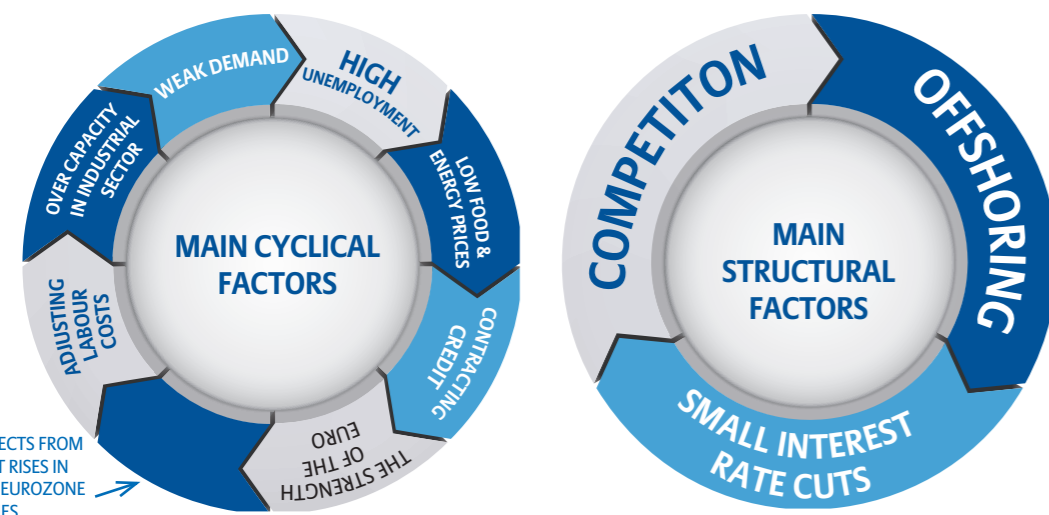
## United Kingdom - Real GDP growth, annual change %

	2012	2013	2014f	2015f
United Kingdom	0.3	1.7	2.4	2.5

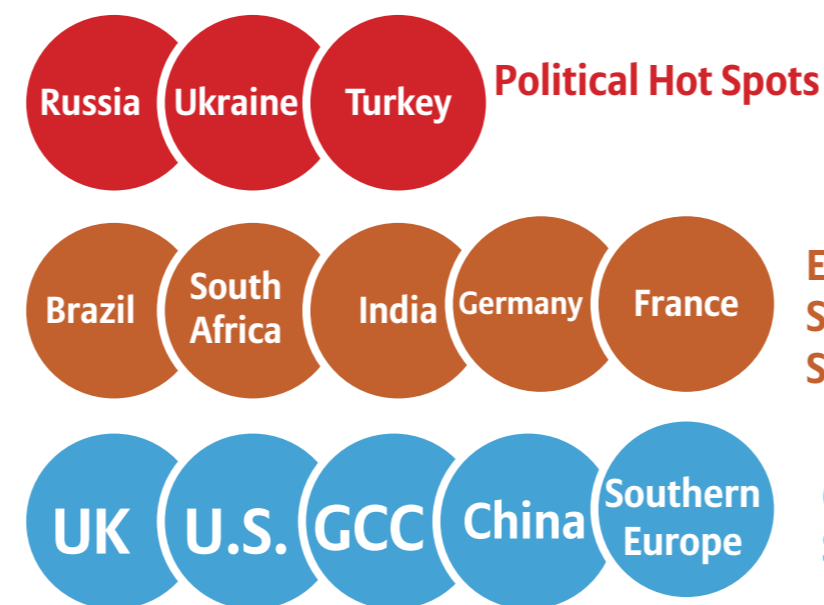
Sources: IMF, IHS Global Insight, Euler Hermes Forecasts

## Disinflation in the advanced economies

The global economic slowdown experienced since 2012 has put downward pressure of prices in advanced economies. Inflation fell in the United Kingdom, the United States and most notably the Eurozone. Cyclical and structure factors have put a heavy pressure on pricing:



## The way ahead - who is hot, who is bright?



## (Geo-) political risk remains on the map

- The conflict in Syria persists and weighs on neighbouring countries. In addition Iran's attempt to re-establish relations in the international stage will ensure that **politics continue to be a key risk factor in the Middle-East.**
- Venezuela shaken by violent demonstrations continues its economic downward spiral without apparent solution.
- The Ukraine/Russia conflict has taken its toll on both countries growth prospects for 2013 with GDP growth only estimated to reach **0.7%** in Russia and a deep recession in Ukraine (-3.0%) with significant downside risks.