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Macroeconomic, Risk and Insolvency Outlook

The world economy at a crossroads

Euler Hermes Economic Research Department

Economic Outlook

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* Germany - Ausria - Switzerland

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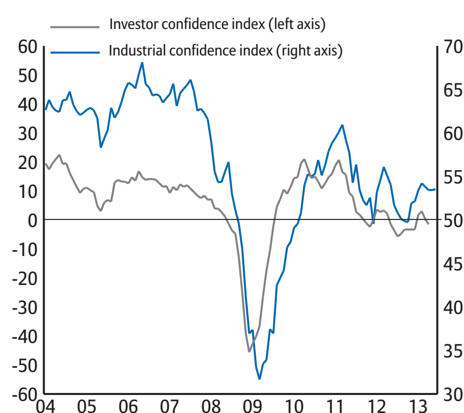
Editorial

Let's talk about Fed baby, let's talk about Q&E

The title of this editorial is certainly a little *'risqué'*, especially if one is familiar with the tune. But jokes aside, discussing the *tsunami* of liquidity that has flooded the markets – and its announced end – seems unavoidable. Why not make a song of it? In fact, while the eurozone continues on its merry way and dangerously nears a crossroads, the United States also has a difficult bend to negotiate. In Europe, wear and tear is at the fore, and questions are being asked as to how long the industrial and social fabric will hold up in the face of faltering public policies and economic limbo. On the other side of the Atlantic, monetary policy is a key concern. The Fed will taper but how much and, above all, when? The end of the deluge of dollars that allowed the US economy to pull out of its rut will not take place without leaving its mark on the credit channel and on the real economy. Central banks' full-scale economic experiment (in the United States, but also in the United Kingdom, Japan and the eurozone) has reassured some and worried others. The doomsayers are warning of either bubble or credit crunch, while pragmatists remind us that there was no other solution in any case. What remains interesting is this choice, laden with consequences that extend beyond US borders, of a less accommodating monetary policy by the Fed. Emerging markets remember only too painfully the crisis in the mid-1990s and, although these same countries have clearly changed, infrastructure, financial markets and the financing of the economy have been generously fuelled by the (cheap) dollar liquidity during the past two years. Inflationary risks have soared, and in a country like Brazil the unstable equilibrium that this represents, between societal risk and the need for an emerging industry, is unfortunately clear. Ultimately, many BRIC (Brazil, Russia, India, China) or CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa) countries, and Next-11 countries are once again faced with the harsh reality of having to press ahead with numerous domestic reforms (Chinese growth model, the financing of the Turkish current account balance, or wage negotiations in South Africa to name just a few) all the while accepting high economic dependency which can (often) complicate matters. Is there any good news in all this? Just maybe, it could help put the eurozone crisis into perspective and make it possible, at long last, to rebuild the economy – with less *Realpolitik*._Ludovic Subran

World business cycle indicators



Sources: Markit, Sentix, Euler Hermes

Overview

The world economy at a crossroads

Global growth is expected to slow to +2.4% in 2013 before picking up slightly in 2014 (+3.1%). It will be characterized by: (1) a decoupling between regions, with moderate growth in the United States contrasting with a eurozone in a deeper recession, (2) an inversion of growth trends within regions (upturn in Japan, slowdown in China), and (3) an overall disconnection between financial performances and the weakness of the real economy. Against this backdrop, the risk-return ratio remains negative on the whole because of an intensification of political and social risk and macroeconomic and financial prospects still marred by uncertainty. In the short term, political and economic choices will be crucial: the extent of integration in the eurozone, public policies in Japan and the United States, the growth model in China and, last, the improvement in the business environment in Brazil, Russia and India.

Divergent economic performances between and within regions persisted in early 2013. The recovery in global activity is likely to be slower than expected (+2.4% in 2013 and +3.1% in 2014).

Global growth began the year on a mixed note. Growth gaps (i) among developed countries have persisted, with a resilient US economy contrasting with a weakening eurozone, and (ii) between regions, with a satisfactory performance in the Asian region thanks to a stronger-than-expected recovery in Japan. Global growth remained virtually stable in the first quarter of 2013 (at +0.6% q/q compared with +0.5% q/q in Q4 2012). The divergence of economic performances between and within regions continued, notably within developed countries:
(i) The United States and Japan stand out, the former having shown resilience thanks to dynamic private consumption (+0.6% q/q compared with +0.1% q/q in Q4 2012) despite accelerating budgetary consolidation, while the latter has enjoyed a more clear-cut recovery (+1.0% q/q compared with +0.3% q/q in Q4 2012) on the back of fiscal and monetary stimulus measures.
(ii) By contrast, the eurozone remained in recession (-0.2% q/q) for the sixth quarter in a row. The ability of the core countries to weather the crisis has been eroded: Germany and Austria are in stagnation (+0.1% q/q and +0% q/q respectively) while France (-0.2% q/q), Finland (0.1% q/q) and the Netherlands (-0.1% q/q) prevail in recession.
(iii) Meanwhile, emerging countries continue to drive global growth, although to a lesser degree due to a slowdown in growth among the emerging BRIC countries: China (+7.7% y/y), India (+4.8% y/y), Russia (+1.6% y/y) and Brazil (+1.9% y/y).

The eurozone (-0.6%) will continue to be a drag on global growth in 2013 before recovering modestly in 2014 (+0.8%). Prospects in the eurozone remain dismal due to the ongoing budgetary consolidation, the weak business climate and tightened credit conditions (although to a lesser degree since the start of 2013). Despite the easing of budget targets in some eurozone countries (France, Spain, Portugal, Greece and the Netherlands), the adjustment in public finances and the weight of public debt stocks will delay the recovery in activity. In addition, without any significant action on the part of the ECB or heads of government to kick-start financing for companies, the investment cycle will struggle to pick up. In fact, credit to non-financial companies (at the lowest level since February 2008) remains strongly hampered by a lack of demand but also by limited supply linked to a still-high perception of credit risk and regulatory constraints for banks (Basel III). As for households, the deleveraging process is well underway, but its protraction will curb any vigor in their purchasing power, already affected by austerity measures and rising unemployment. Adverse weather effects have also chimed in (floods in Germany and France in particular, inclement weather in the month of May), the negative effects of which will be felt in Q2 2013. Thus, the eurozone is expected to post a second year of recession and a sharper contraction than in 2012 (-0.6% compared with -0.5% in 2012) before modestly and gradually picking up in 2014 (+0.8%). None of the region's economies is likely to be spared: Germany is forecast to post a meager +0.3% in 2013 before +1.5% in 2014, while France looks set to fall in recession (-0.3% before +0.4% in 2014).

Economic forecasts

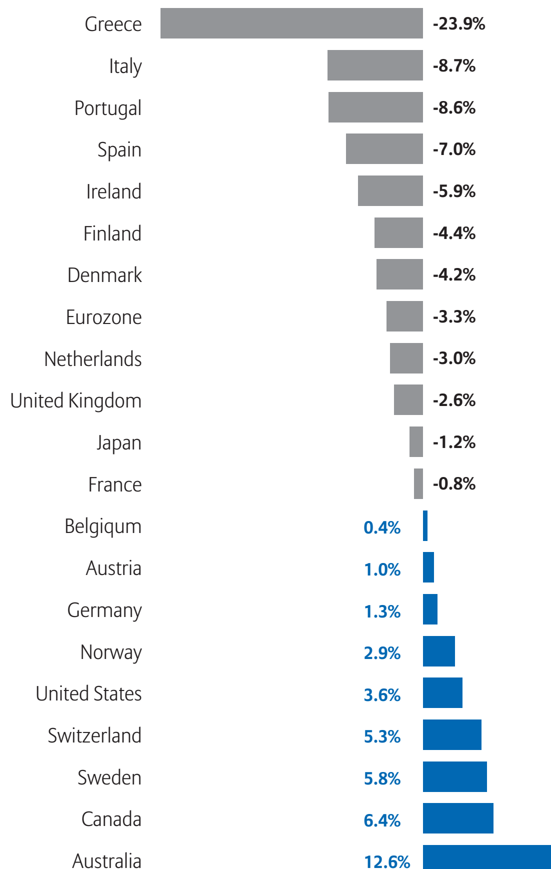
forecasts

GDP	share*	2011	2012	2013	2014
World GDP growth	**100**	**2.9**	**2.5**	**2.4**	**3.1**
Developed countries	**62**	**1.6**	**1.3**	**1.1**	**1.9**
Emerging countries	**38**	**5.1**	**4.5**	**4.4**	**4.9**
North America	**24**	**1.9**	**2.2**	**1.8**	**2.7**
United States	22	1.8	2.2	1.8	2.7
Canada	3	2.5	1.7	1.9	2.3
Latin America	**8**	**4.2**	**2.6**	**3.0**	**3.5**
Brazil	3	2.7	0.9	2.7	3.3
Western Europe	**23**	**1.5**	**-0.2**	**-0.2**	**1.0**
Sweden	1	3.8	1.1	1.3	2.2
United Kingdom	3	1.0	0.2	0.8	1.4
Eurozone	**17**	**1.5**	**-0.5**	**-0.6**	**0.8**
Germany	5	3.1	0.9	0.3	1.5
France	4	2.0	0.0	-0.3	0.4
Greece	0	-7.1	-6.4	-4.3	-0.2
Ireland	0	1.4	0.9	1.0	1.8
Italy	3	0.5	-2.4	-1.8	0.3
Netherlands	1	1.0	-1.3	-1.0	0.6
Portugal	0	-1.6	-3.2	-2.6	0.2
Spain	2	0.4	-1.4	-1.6	0.3
Central and Eastern Europe	**6**	**4.7**	**2.1**	**2.4**	**3.1**
Russia	3	4.3	3.4	3.2	3.8
Turkey	1	8.8	2.2	4.0	4.0
Poland	1	4.5	2.0	1.3	2.2
Asia	**29**	**4.8**	**4.9**	**4.8**	**5.1**
China	11	9.2	7.8	7.7	7.9
Japan	8	-0.5	1.9	1.6	1.4
India	3	6.5	5.0	6.0	7.0
Oceania	**2**	**2.3**	**3.3**	**2.4**	**2.8**
Australia	2	2.4	3.6	2.7	3.1
Middle East	**4**	**4.6**	**3.5**	**2.5**	**3.8**
Saudi Arabia	**1**	**8.5**	**6.8**	**4.0**	**4.5**
United Arab Emirate	**1**	**4.2**	**4.5**	**3.5**	**4.0**
Africa	**2**	**1.1**	**5.8**	**4.5**	**4.8**
Marroco	0	5.0	2.7	4.5	4.5
South Africa	1	3.5	2.5	2.5	3.5

* change from one period to the next
Sources: FMI, IHS Global Insight, Euler Hermes forecasts

GDP growth

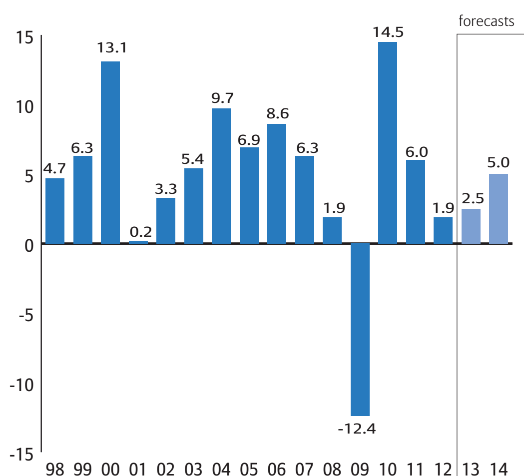
Q1 2013 compared to Q1 2008



Sources: national statistics, IHS Global Insight, Euler Hermes forecasts

World trade in goods and services

yearly change, in %



Sources: national statistics, IHS Global Insight, Euler Hermes forecasts

Contribution to 2013 GDP growth*

	GDP	=	Domestic demand	+	Net trade contribution
Australia	2.7%		0.3%		2.4%
Canada	1.9%		1.3%		0.6%
United States	1.8%		1.7%		0.1%
Japan	1.6%		1.6%		0.1%
Switzerland	1.3%		1.1%		0.2%
Sweden	1.3%		1.2%		0.1%
Norway	1.2%		2.4%		-1.2%
Ireland	1.0%		0.1%		0.8%
United Kingdom	0.8%		0.9%		-0.2%
Denmark	0.5%		1.1%		-0.6%
Austria	0.3%		0.1%		0.2%
Germany	0.3%		0.4%		-0.1%
Netherlands	-1.0%		-2.7%		1.7%
Finland	0.1%		-1.1%		1.2%
Belgium	0.0%		-0.2%		0.3%
France	-0.3%		-0.5%		0.1%
Spain	-1.6%		-3.8%		2.1%
Italy	-1.8%		-2.7%		0.9%
Portugal	-2.6%		-5.1%		2.5%
Greece	-4.3%		-7.6%		3.3%

* annual average
Sources: IHS Global Insight, Euler Hermes forecasts

Growth in emerging Europe, linked to the eurozone economic cycle (Central Europe) and the reduction in commodity prices (Russia), is likely to remain weak (+2.4% in 2013 and +3.1% in 2014).

The resilience of 2013 global growth (+2.4%) will come from healthy performances in the United States (+1.8%), China (+7.7%) and positive news in Japan (+1.6%). 2014 will see a modest acceleration in global activity (+3.1%). In the United States, the outlook for employment and the real estate market continues to improve. However, the automatic spending cuts (USD85bn by October 2013) could have an impact on household consumption in Q2/Q3 2013, although the use of savings could help to cushion the effect of tax hikes. Economic growth is expected to slow to +1.8% in 2013 before picking up in 2014 (+2.7%) on the back of improving economic fundamentals: progress in private-sector deleveraging and improving competitiveness in the manufacturing sector (labor cost at a post-1980 low). The two regional leaders in Asia will underpin global activity. In Japan, growth will accelerate to +1.6%, driven by an extremely expansionary monetary policy. In 2014, the economy is forecast to slow to +1.4% under the effect of a tightening of fiscal policy, Japan's public debt having reached all-time highs. In China, the rebalancing of the economy in favour of more domestic than external growth drivers will continue. This transition will be reflected by a deceleration in the pace of growth to +7.7% in 2013 and +7.9% in 2014. Latin America will show resilience, with growth gradually picking up (+3% in 2013 and +3.5% in 2014). Meanwhile, Brazil, which is the main contributor to activity in the region, remains hostage to strong inflationary pressures that prevent any easing of monetary policy.

A fresh surge in social and financial risks

Political risk is gaining momentum particularly in the Middle East. The polarization into blocs (around the United States and Russia) concerning the Syrian conflict foreshadows a possible escalation of the geo(political) risk at the global level (spreading of the armed conflict, rise in oil prices). The election of a new president in Iran, presented as more moderate, provides a glimpse of hope for a new era of international negotiations, although the new president's inclinations remain uncertain. In Turkey, the escalation of the Taksim Square protests gives rise to fears of more widespread outbursts. The social risk remains high in southern Europe, with unemployment rates that continue to rise. The shutdown of the Greek public television network has fuelled tension between the government and its partners in an already strained environment. In this context, the risk overhanging growth remains high at the global level while the latest leading indicators are yet to point to an upturn in activity. In fact, the weakness of demand in the eurozone continues to weigh on the global economy, further weakening the other economies dragged down in the wake of the ongoing European crisis (-0.1 pp of annual growth for every quarter of crisis).

In addition to these risks, financial uncertainties have also risen. The disconnection between the real economy and the financial sphere continues despite increasingly expansionary monetary policies. In fact, while financial variables improved on the whole during the first quarter in the main developed countries, trends remain (1) highly volatile, (2) incongruous with macroeconomic signals (weakening global demand). The central banks of the major developed countries have reaffirmed their willingness to carry on with unconventional monetary policy, further increasing already abundant global liquidity (assets up by +13 pps of GDP between 2007 and 2012 for the main central banks). The Fed has committed to continuing its asset purchases and to leaving the Fed Funds rate at an all-time low until the job market

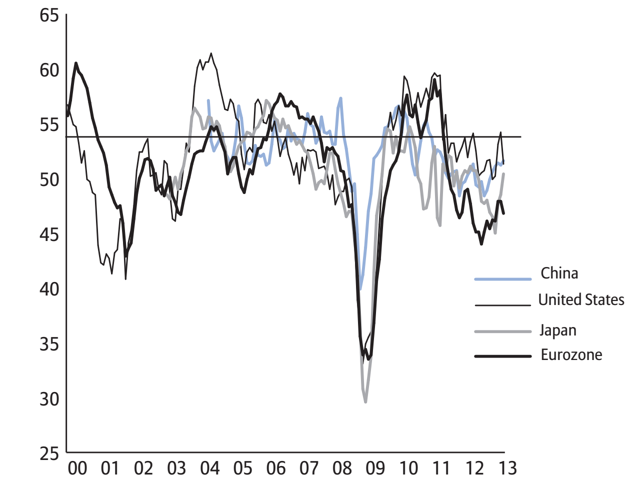
Unemployment rate*

	2012	2013f	2014f
Greece	24.3%	26.2%	26.0%
Switzerland	2.8%	3.0%	3.0%
Japan	4.3%	4.3%	4.4%
Sweden	8.0%	8.1%	7.9%
Portugal	15.9%	18.3%	18.9%
Ireland	14.7%	14.3%	13.9%
Norway	3.2%	3.5%	3.3%
Canada	7.3%	7.0%	6.8%
United States	8.1%	7.7%	7.1%
France	10.2%	10.9%	11.0%
Italy	10.7%	11.7%	12.7%
Spain	24.9%	27.7%	28.3%
Denmark	8.3%	8.2%	7.8%
Belgium	7.6%	8.2%	8.2%
Germany	6.5%	6.7%	6.6%
Eurozone	11.5%	12.3%	13.0%
Austria	4.4%	4.7%	4.6%
Finland	7.7%	8.3%	8.1%
Netherlands	6.4%	7.9%	8.1%
Australia	5.2%	5.4%	5.0%
United Kingdom	8.0%	7.9%	7.8%
Brazil	5.5%	5.4%	5.3%
Russia	5.1%	5.4%	5.2%
India	8.4%	8.8%	8.6%

Sources : IHS Global Insight, Euler Hermes forecasts
* annual average

Industrial confidence index

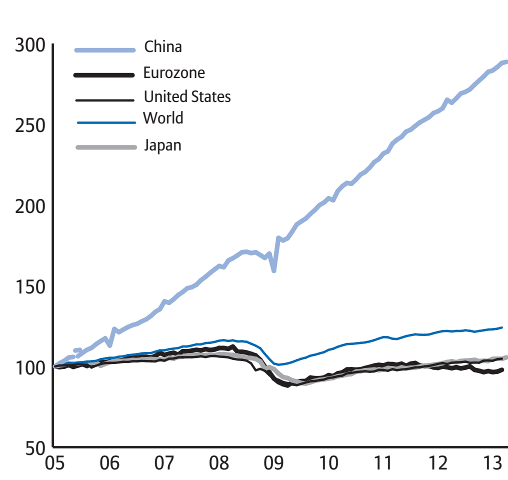
Manufacturing PMI



Sources: Markit, Bloomberg, Euler Hermes

Industrial production

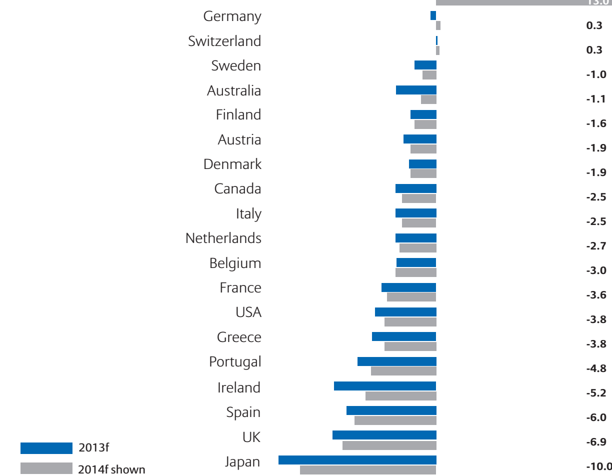
Basis 2005=100



Source: CPB

Fiscal balance

% of GDP



Sources: national statistics, IHS Global Insight, Euler Hermes forecasts

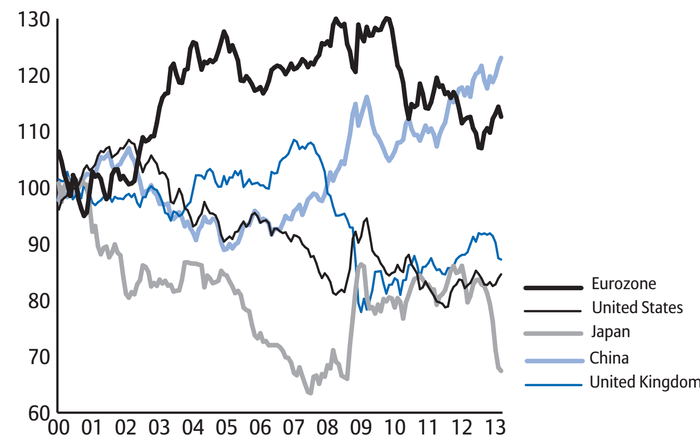
Public debt

% of GDP

Sources: national statistics, IHS Global Insight, Euler Hermes forecasts

Exchange rates

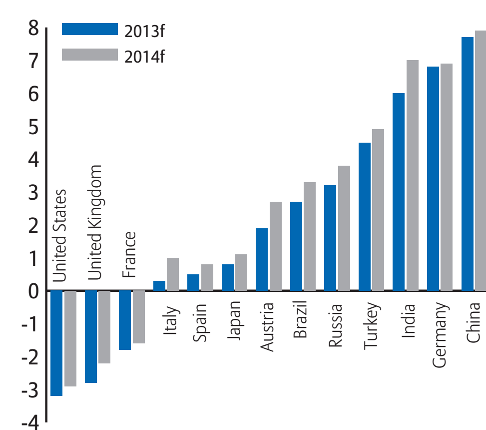
real effective exchange rate, basis 100=Q1 2000



Sources: national statistics, IHS Global Insight, Euler Hermes forecasts

Current account balance

% of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

absorbs its imbalances. The ECB cut its key policy rate in May (by 25bp to 0.5%) and expectations are for an even more active monetary policy from this summer onwards in order to kick-start credit to non-financial corporations. The BoJ is undoubtedly the subject of most attention in light of its new operating framework, namely an inflation target now at 2% for the next two years and an objective of doubling the money supply by 2014. With a view to containing capital inflows linked to these unconventional policies, many countries have chosen to ease their monetary policy. This has been the case in other developed countries such as Australia and New Zealand, which enjoy much healthier prospects than the regions cited above, but also in some large emerging countries including Mexico and Turkey.

In a normal growth cycle, an easing of monetary policy paves the way, via an improvement in borrowing conditions, for a pick-up in demand and an acceleration in inflation. Interest rates have never been so low over the past decade and the global money supply has never been so high. Yet the economic news flow continues to disappoint: growth in activity remains weak considering the means that have been put into action. In fact, emerging countries, which will contribute two thirds of growth in 2013, have slowed, demand in Europe continues to contract and activity in the United States has grown below expectations. Global inflation continues to decelerate (+3.4% in Q1 2013 compared with +3.6% in Q4 2012) and the decline in basic product prices, in particular the fall in the oil prices per barrel to around USD100 in May, are all factors that illustrate the weakening of global demand. Paradoxically, financial indicators have recorded positive performances in this relatively fragile environment (delayed recovery, low inflation). First of all, stock market indices of the main developed economies have improved since the beginning of 2013 (+3% in Italy and +1% in Spain) and the rise has been spectacular in Japan (+23%). Governments' borrowing conditions, in particular in the eurozone, have continued to improve, despite the Cypriot crisis and the political problems in Italy.

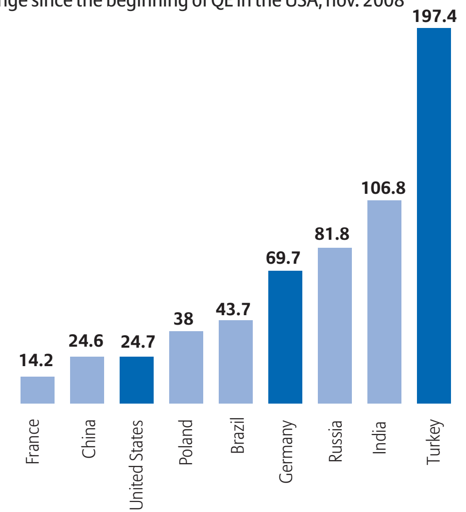
The longer this disconnection lasts, the more it will fuel instability. This situation reflects (i) an ineffectiveness of monetary policy transmission mechanisms, which are stimulating more demand for financial assets than for goods and services, (ii) uncertainty overhanging the global economic outlook, leading investors to seek assets "reputed" as the safest (priority given to reputation over fundamentals), and (iii) the speculative behavior of financial institutions seeking the highest returns in the short term. It could be "beneficial" if it is temporary and leads to wealth effects being injected into the economy through consumption, in particular in countries with a high number of household shareholders like in the United States, or business investment (Japan). This is our core scenario. Should the reverse unfold, this disconnection would be very damaging, particularly in the eurozone and Japan. For the former, it would lead to an ongoing decline in spending by households and companies, which themselves are the cause of gradually weakening inflation, or to a vicious circle of mutually sustaining sluggish demand and falling prices. The case of Japan would be all the more problematic in that the country already suffers from a colossal public debt and still bears the scars of ten years of deflation and weak growth. While the risk of such a scenario seems to be kept at bay for the time being in the eurozone, it remains significant in the case of Japan, in particular if this country is unable to come up with a credible plan to shore up public finances in the medium term.

Political and economic choices will be crucial

The eurozone continues to face institutional dilemmas in addition to imbalances specific to each country.

Equity prices

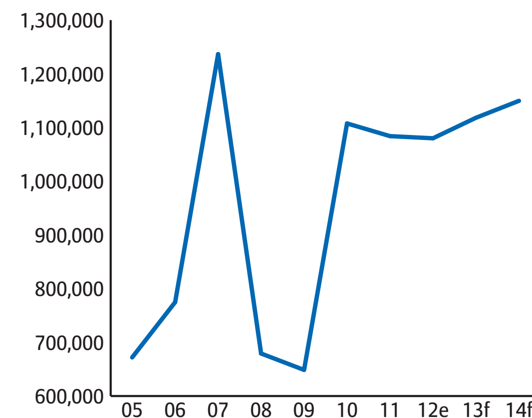
change since the beginning of QE in the USA, nov. 2008



Source: IHS Global Insight

Private capital inflows in the emerging economies

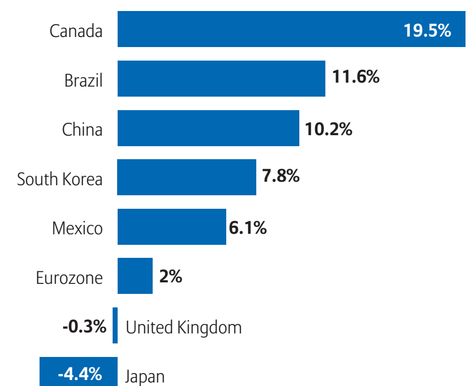
millions USD



Source: IIF

Exchange rates growth

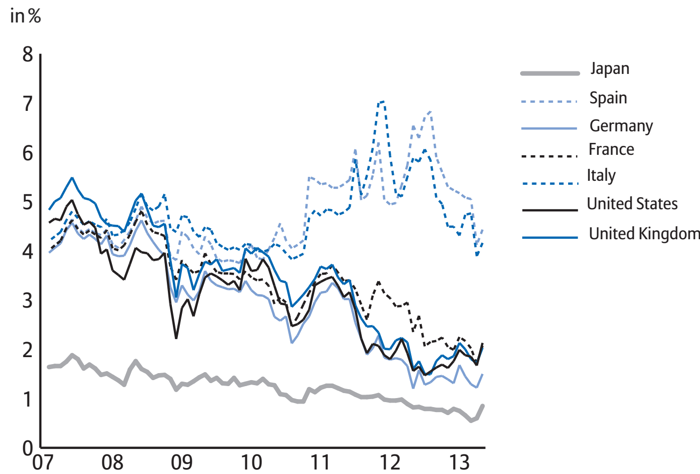
USD per LCU since the beginning of QE in the USA, nov. 2008



Sources: IHS Global Insight

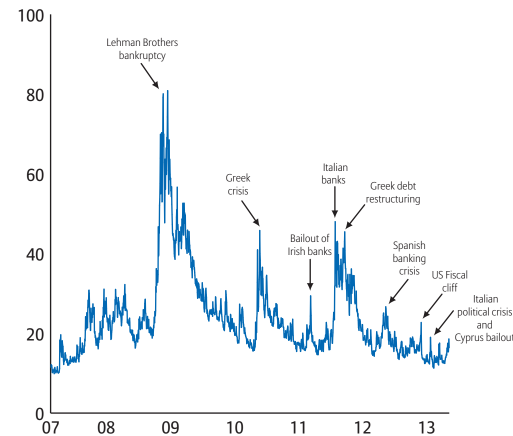
Sovereign interest rates (10 years)

in %



Sources: Bloomberg, Euler Hermes

Index of financial markets volatility (VIX)



Sources: Bloomberg, Euler Hermes

Beyond monetary policy, Europe needs a credit policy.

Credit to companies in the eurozone is at its lowest since early 2008.

▶ The contraction in credit to non-financial corporations (NFC) gathered pace in May 2013 (-5.0% y/y), reducing the stock of credit in the eurozone to its lowest level since February 2008.

With the exception of the Netherlands, the fall in credit to eurozone NFC has affected all countries, although it has been more pronounced and longer lasting in the southern European countries. Credit to NFC has been declining for the past three years in Spain (-19.9% y/y in May) and Ireland (-6.2% y/y), for the past two years (or more) in Portugal (-6.0% y/y) and Greece (-7.6% y/y), and for a little more than one year in Italy (-4.6% y/y). Core eurozone countries such as Germany (-0.9% y/y) and France (-0.5% y/y) have also seen declines in the past few months.

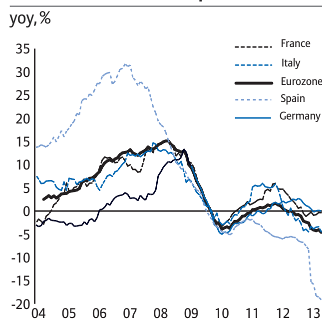
Supply, demand, price: what factors are obstructing the credit channel?

▶ First, the rise in non-performing loans (now at record levels in Spain and Italy, respectively at 10% and 13% of total loans) and the weak profitability of banks is curbing the credit supply, in particular in light of the tightening of regulatory capital requirements for banks.

Second, weakened demand (high unemployment, decline in purchasing power) and the gloomy business climate are weighing on companies' investment intentions and therefore on credit demand. Last, despite the easing of financial tensions, credit conditions remain highly unfavorable in the eurozone (especially among the southern European countries) unlike in the United States or the United Kingdom. In fact, bank financing is 100 bps more expensive (or +3.5% on average) for Spanish and Italian NFC than for those in France or Germany. This is mainly due to Europe's dysfunctional monetary policy (the spread between bank credit rates for NCF in the eurozone and the ECB's key policy rate doubled between 2007 and 2012).

Credit to non-financial corporations

yoy, %



Sources: Bloomberg, Euler Hermes

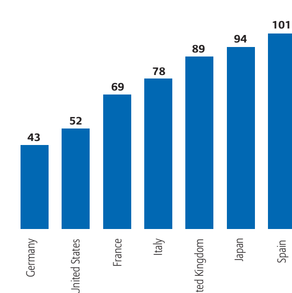
Reviving growth through a public-private partnership stimulating credit to companies.

▶ The lack of any momentum in business investment rules out any lasting pick-up in eurozone growth.

This is all the more worrying since the investment cycle is primarily financed via bank credit. In fact, eurozone companies raise more than 90% of their financing through banks (compared with 30% in the United States) at the expense of financing through the bond markets for example. It is therefore imperative that a policy to stimulate credit is introduced in the eurozone, in addition to an effort to ease fiscal policy. Establishing a public bank (to support private market capacities) such as the KfW in Germany (and soon the BPI in France) to operate in conjunction with the credit market would be useful, and could even help those countries beset by a credit crunch (along the lines of the KfW-ICO model between Germany and Spain). But it is clearly support for the real economy, such as the Funding for Lending Scheme in the United Kingdom, that is lacking. The EIB has reiterated its intention to make available EUR 60 billion in soft loans to SMEs (from its recently voted EUR 10 billions recapitalization). The terms according to which these loans are granted will be crucial for the cost-efficiency of this new tool. ■ *AB*

Non-financial corporations debt

% of GDP, Q4 2012



Sources: Banque de France, Euler Hermes

In the first half of the year, the resilience of confidence in the eurozone was tested by several events. First, the Italian legislative elections, which initially led to no conclusive outcome, have eased concerns surrounding the political instability on the edge of which the country was teetering. While fragile, the 'grand coalition' led by Enrico Letta has gestured at pressing ahead with the reforms (although probably less ambitious than those of the Monti government) which are needed for the country to return to the growth track. Second, the Cypriot bailout decided in late March eased fears of contagion effects in the other European countries given the absence of a banking union. Although the negative effects on the stability of the zone and on the other 'sensitive' countries have been contained, much-needed progress in terms of governance in the eurozone will be crucial in the coming months. The European Summit at end-June is expected to come up with more answers in terms of (i) financial integration (and the link between governments and banks, the scope of the banking union – joint resolution fund and joint deposit guarantee – as well as a timetable for implementation), (ii) the extent of budgetary consolidation in the coming years given the weakness of the economic cycle, and (iii) coordination of private sector credit policies. Although imbalances between eurozone countries continue to moderate through the implementation of structural measures, the adjustment of unit labor costs, the ongoing budgetary consolidation and a reduction in reliance on external financing, the rebalancing process between the countries of the area is far from completed. In this context, the continuation of reforms at the national and European levels is crucial for an improvement in productivity and price and cost competitiveness, but also for an improvement in the health of the financial system. Last, the sustainability of public debts will remain a major risk in the short term in the absence of new measures at the European level (mutualisation of debts within the ESM/ERF) and growth. As matters stand, the road to any real fiscal and political integration in the eurozone (European Budget and Government) remains long, which does not bode well for a vigorous recovery in activity.

The United States and Japan will have to adopt a credible position in terms of public policies. The postponement of the increase in the debt ceiling in the United States to September 2013 means that uncertainty continues to linger over USA's public finances. August 2013 will mark two years since the government deferred the resolution of this problem to a later date. While macroeconomic fundamentals have improved, easing concerns about the sustainability of the debt situation, failure to resolve the debt ceiling issue – a legal obstacle to new financing – would increase the sensitivity of the economy to any new financial shock. In Japan, public debt continues on its upward path and the government's latest policy guidelines (JPY 10 billion stimulus plan) suggest this trend will continue. While this stimulus will indeed bring growth in the short term, maintaining such a stance will be damaging in the medium term. Our scenario assumes a rise in financial pressures on the Japanese government for it to reduce its deficit from 2014. As a result, a hike in the VAT rate would likely take place in the first half of 2014.

In China, the change of economic model will not take place in the short term. The rebalancing of the Chinese economy remains the authorities' main priority. A resulting slowdown in growth (close to 8% per year as opposed to 10% during the last decade) has been accepted. A change of economic drivers, from an export-led model to one driven by domestic demand, is underway. This is being fuelled by massive injections of liquidity and the implementation of infrastructure plans. However, this transi-

Inflation*

	2012	2013f	2014f
Greece	1.0%	-0.6%	-0.2%
Switzerland	-0.7%	-0.3%	0.3%
Japan	0.0%	0.1%	1.6%
Sweden	0.9%	0.5%	1.7%
Portugal	2.8%	0.4%	0.9%
Ireland	1.9%	1.0%	1.2%
Norway	0.8%	1.5%	1.8%
Canada	1.4%	1.4%	1.8%
United States	2.0%	1.4%	2.1%
France	2.0%	1.2%	1.6%
Italy	3.0%	1.3%	1.2%
Spain	2.4%	1.4%	1.0%
Denmark	2.4%	1.0%	1.8%
Belgium	2.6%	1.2%	1.9%
Germany	2.0%	1.5%	1.9%
Eurozone	2.5%	1.6%	1.5%
Austria	2.5%	1.8%	2.2%
Finland	2.7%	2.3%	2.4%
Netherlands	2.8%	2.7%	1.7%
Australia	1.8%	2.5%	2.5%
United Kingdom	2.7%	2.6%	2.2%
Brazil	5.4%	6.3%	5.6%
Russia	5.1%	6.3%	5.2%
India	7.6%	7.3%	6.5%
China	2.7%	2.5%	3.0%

Sources: IHS Global Insight, Euler Hermes forecasts
* annual average

tion will take time given the structural relationship linking investment and export activity (around 45% of GDP) to very weak growth in private consumption and its small share in GDP (around 35%).

In addition to economic challenges (combating inflation), the BRI countries (Brazil, Russia and India) will have to improve their business environment in order to restore confidence. Among the major global economies, the BRI countries remain low in global business practice rankings. Ranked below the 100 best-performing countries in the Doing Business Index (DBI)-2013, these economies suffer from a challenging regulatory framework (mainly legal difficulties in starting a business) that discourages private initiative, in particular for foreigners. In addition, governance indicators continue to be undermined by corruption and weak performances in logistics (lack of infrastructure for trade). These indicators all take on significance in the current context in which investors are seeking sufficiently sheltered and sustainable growth._*AB/MI*

Insolvencies statistics by country

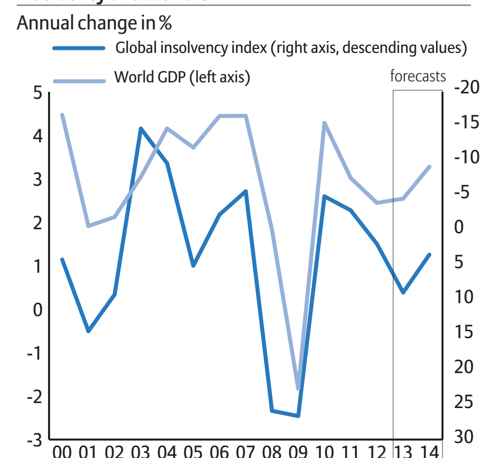
	% of world GDP**	% of global insolvency index*	2012 total	2012 change	forecasts 2013	forecasts 2014
USA	22.5	26.4	40,075	-16%	-7%	-6%
China	10.9	12.8	2,626	-14%	4%	3%
Japan	8.8	10.3	12,124	-5%	-3%	3%
Germany	5.3	6.2	28,297	-6%	1%	-2%
France	4.1	4.8	60,958	2%	2%	-1%
Brazil	3.7	4.3	1,495	26%	20%	0%
UK	3.6	4.2	29,940	-8%	-7%	-6%
Italy	3.3	3.8	12,442	2%	7%	0%
Russia	2.8	3.2	14,072	10%	2%	-3%
Canada	2.6	3.0	3,236	-11%	-4%	-2%
Spain	2.2	2.6	7,799	32%	40%	15%
Australia	2.2	2.6	10,632	1%	3%	2%
Korea (South)	1.7	2.0	1,228	-10%	1%	-2%
Netherlands	1.2	1.5	8,616	21%	7%	-1%
Switzerland	0.9	1.1	4,513	-4%	-2%	-4%
Sweden	0.8	0.9	7,471	7%	10%	3%
Poland	0.8	0.9	941	29%	10%	2%
Belgium	0.8	0.9	10,587	4%	11%	2%
Norway	0.7	0.8	3,814	-12%	-3%	-6%
Taiwan	0.7	0.8	260	2%	6%	4%
Austria	0.6	0.7	6,041	3%	4%	0%
South Africa	0.6	0.7	2,928	-17%	-4%	-4%
Denmark	0.5	0.6	5,456	0%	3%	-3%
Greece	0.4	0.5	1,400	30%	10%	3%
Finland	0.4	0.5	3,471	1%	3%	-2%
Singapore	0.4	0.5	151	34%	1%	-3%
Chile	0.4	0.4	129	-3%	1%	-4%
Hong Kong	0.4	0.4	312	-6%	3%	-2%
Portugal	0.4	0.4	6,727	42%	9%	1%
Ireland	0.3	0.4	1,684	3%	-3%	-8%
Czech Republic	0.3	0.4	3,764	46%	10%	10%
Romania	0.3	0.3	29,769	31%	-3%	-14%
New Zealand	0.2	0.3	2,345	-8%	-2%	-2
Hungary	0.2	0.2	22,389	13%	4%	-4%
Slovakia	0.1	0.2	1,050	6%	5%	4%
Lithuania	0.1	0.1	1,339	5%	5%	-5%
Luxembourg	0.1	0.1	1,053	8%	0%	-5%
Latvia	0.0	0.0	881	0%	6%	-3%
Estonia	0.0	0.0	506	-19%	1%	-4%

* share of global Insolvency Index
** GDP 2011 weighting at current exchange rates
Sources: national statistics, Euler Hermes forecasts

forecasts

Insolvency and world GDP

Annual change in %



Sources: national statistics, Euler Hermes calculation and forecasts

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