Press release

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World growth: resilient in 2012 before rebounding in 2013 in a context of uncertainty

Macroeconomic forecasts by credit insurer Euler Hermes

- **World growth restrained at 2.6% in 2012 before rebounding to 3.1% in 2013.**
- **Negative growth in the euro zone in 2012, resilient growth in the rest of the world.**
- **Three major risks: excessive and uncoordinated austerity, a resurgence of financial tensions and rising oil prices.**

Paris, 2nd May 2012 – In 2011, world GDP grew by 2.9%, representing a significant loss of momentum relative to the previous year (4.3% in 2010). Most of the principal contributors to world growth have returned to their pre-crisis expansion rates, with the exception of Japan, the UK and, within the euro zone, Greece, Portugal, Spain and Italy.

World economic growth should slow slightly to 2.6% in 2012, with positive growth in all regions bar the euro zone, before rebounding to 3.1% in 2013 on the back of improved prospects in Southern Europe. The evolution of international financial tensions, the uncertain results of European austerity programmes and the volatility of energy prices and, more generally, commodities are the three major factors capable of affecting this trend.

"*2012 looks set to be a year of resilience rather than of pronounced recovery", says* **Wilfried Verstraete, Chairman of Euler Hermes.** *"Because of the slowdown in world demand, and hence in their exports, we know that emerging countries are no longer in a position to drive world growth, as they did in 2010. In addition, developed economies have by no means overcome all their difficulties. This is the case both in the US, where the recovery remains subdued, and, of course, in the euro zone, which is struggling to resolve the sovereign debt crisis, with all that this implies in terms of political uncertainty and its repercussions for global economic stability".*

Europe: recession in the euro zone, fragile growth elsewhere

The euro zone should experience a decline in GDP of around **-0.3% in 2012,** hit by the onset of recession in two of its four principal contributors (Italy at -1.2% and Spain at -1.3%) and a slowdown in the two others (France at 0.4% and Germany at 0.9%). Euler Hermes expects the euro zone to return to positive growth of around **1% in 2013**. "*Southern European countries are becoming separated from the rest of Europe. They have launched austerity policies that, without growth, are vicious circles, not only for them, but also for other euro-zone countries. Regarding debt, the question today is to know whether member states will adopt a Greek-style solution for countries such as Spain and Italy and, above all, if financial markets are able to absorb a resolution of the debt crisis in these countries that requires them to write down their debt holdings,"* says **Ludovic Subran, Chief Economist at Euler Hermes.**

The UK is standing on shifting sands, with very fragile growth drivers both internally (weak domestic demand) and externally (only slightly positive contribution of external trade). As a result, its growth outlook remains modest at 0.5% in 2012 (vs. 0.7% in 2011) and 1.3% in 2013.

Central and Eastern countries, especially those that form part of the European Union, are likely to see their output weaken, pushing down the region's average growth rate by almost 1.5pts to 3% in 2012 before rising to 3.5% in 2013. Poland and Russia should be resilient, the first thanks to robust domestic demand and the second thanks to its commodity exports.

Americas: real improvements despite persistent weaknesses

The **US recovery** should continue thanks to relatively robust domestic demand. Growth is forecast at **2.0% in 2012 and 2.1% in 2013**. The risks to this trend remain high on the domestic front, however, given the scale of public and private debt and monetary policy constraints (risk of hyper-liquidity and resurgence of inflationary pressures).

In **Latin America**, regional GDP growth is expected to slow further to **3.3% in 2012** (vs. 4.1% in 2011), affected by the weakness of international markets, prices of non-oil commodities and earlier monetary tightening, before picking up to **3.7% in 2013**. Brazil should experience growth of 3% in 2012, followed by 3.5% in 2013.

Asia: recovery in Japan thanks to rebuilding, slowdown in China and India

Japan's GDP, driven by the rebuilding process following the catastrophes of March 2011, could stage a sharp recovery to 1.6% in 2012 (versus –0.7% in 2011) before returning to a more moderate pace in 2013 (1.1%).

Although the pace of growth in **India and China** remains well above that in Western countries, it will be less vigorous than in 2011. As long as monetary policy is eased, Chinese growth should average around 8% in 2012 (versus 9.2% in 2011) and rise to 8.5% in 2013, while Indian GDP should grow by 7% in 2012 (versus 7.5%) and by 8% in 2013. "*Chinese exports are slowing but are expected to pick up in the second half of 2012, allaying concerns about a hard landing by the Chinese economy. Thanks to its reserves, China has solid financing capacities and considerable economic policy leeway. In particular, the group is able to re-open the fiscal taps for public investment and to boost domestic consumption",* says **Ludovic Subran**.

Three major risks: excessive and uncoordinated austerity, resurgent financial tensions and rising oil prices

The lack of coordination of fiscal policies and the magnitude of planned adjustments, despite the weakness of domestic fundamentals (average euro-zone unemployment rate of 10% and high inflation above the ECB's target), heighten the risk of a recessionary spiral within European economies and a weakening of global demand.

A resurgence of financial pressures would be harmful to growth, since it would prevent a demand recovery. Renewed tensions on sovereign debt would hinder the consolidation efforts already underway by worsening the outlook for domestic demand, notably through a credit tightening. *"Concerns about a possible credit crunch in the euro zone eased at the start of the year. However, rising yields on Spanish sovereign debt in April have rekindled our concerns, since banks blamed the credit tightening at the end of 2011 on the increase in sovereign risk",* explains **Mahamoud Islam, euro-zone economist at Euler Hermes**.

The strength of demand is highly vulnerable to a fresh increase in the price of oil, especially in the US and in European economies pursuing austerity measures. Despite the current weakness of demand, the oil price has risen steadily since the start of the year, rising above the threshold of $120 in March and moving close to its 2008 peak ($133). Another increase in the price of oil would have a depressive impact on demand by eroding already weak wages and forcing central banks to tighten their monetary policies sooner than planned, a detrimental move given the weak state of the credit market. "*Most countries are net importers of oil. They will have to find public and private financing to cope with a sharp increase in prices. Some countries, such as France, are starting to consider subsidising forecourt fuel prices, a problematic and highly costly measure for weakened economies",* concludes **Ludovic Subran**.

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