Press Release

World economy is walking a tightrope

Credit insurer Euler Hermes' forecasts for economic growth, country risk and corporate insolvencies

- **World economic growth is forecast to slow to 2.7% in 2012, from 3% in 2011, as growth in emerging countries runs out of steam and the 'submerged' countries sink further into the mire.**
- **The euro zone, hanging in limbo, will record sluggish growth (0.3%) and its member states will experience periods of recession (some brief, some longer); only the United States will enjoy a fragile period of grace with 1.8% growth in 2012.**
- **Country risk balance will remain negative and corporate insolvencies will start to rise again in 2012 (+3%).**

Paris, January 10, 2012 – 2011 was by no means an easy year, between the Arab Spring, the Fukushima disaster, the sovereign debt crisis and hesitant governance in Europe. The fragile recovery experienced in the first half came to an abrupt halt in the second and growth in world trade was halved during the year. The deterioration is set to continue in 2012: world growth is not expected to exceed 2.7%, after 3% in 2011. Euler Hermes is forecasting sluggish growth in the first half, which could pick up in the second half with implementation of the announced parachute. Euro zone growth is forecast at 0.3% in 2012 while growth in emerging countries is expected to slow, down to 8.1% for China (from 9.2% in 2011) with growth of 3% for Brazil (as in 2011), for example.

Differences within the euro zone, but all slowing

The sovereign debt crisis and public deficits had a severe impact on the real economy in Europe in 2011. Lack of visibility and limited financing of corporate and household investment expenditure will undermine the growth outlook for euro zone countries to varying degrees: from the situation in Germany, which will stay above water with growth of 0.8% in 2012 (down from 3% in 2011), to an established recession in Greece (down by 2.7% in 2012 after falling by 5.5% in 2011) in Portugal (down by 1.9% in 2012 after contracting by 1.4% in 2011) and in Italy, where the economy will contract by 0.2% in 2012 after growth of 0.5% in 2011. "*In France, GDP growth will slow to 0.4%, from 1.6% in 2011. Like in the United States, the 2012 political calendar will have an impact on activity, between pre-electoral waiting and subsequent readjustment of economic policy*", explains Euler Hermes' Chief Economist, **Ludovic Subran**.

Inflation and unemployment will also be major factors for the euro zone's balance in 2012. Inflation is forecast to slow from 2.7% in 2011 to 2.2% in 2012, contained by weaker demand and more stable commodities prices. Unemployment, however, will remain high, particularly in southern European countries.

Looking further forward to 2013, growth is forecast to pick up to 1.2%, once steps have been taken to reduce deficits and circumscribe systemic risk within the euro zone.

Cautious optimism in the United States

In the **United States,** the recent encouraging economic indicators give some ground for cautious optimism. GDP growth is forecast at 1.8% in 2012 (1.9% in 2013) under the impact of a slowdown in household consumption. Appreciation of the dollar, which has recovered its safe-haven status given the situation in Europe, could put a brake on exports. Companies will continue to record profits but at a more moderate pace. The Federal Reserve will pursue its policy of monetary stimulus to save the economy, but there is some concern as to the country's fiscal orientation up to the elections in November.

BRIC economies are slowing but remain resilient

Although **Brazil** suffered an abrupt slowdown in the third quarter of 2011, its fundamentals are sound and it remains in a good position to cope with trends in the global economic environment. Its economic growth is expected to remain stable in 2012 at 3% (like in 2011) and to rise to more than 3.5% in 2013, thanks to a firm labour market. The main risk for this commodities exporting country remains the possibility that commodities prices might stagnate or even fall.

Despite the slowdown in the euro zone and its impact on demand for Russian goods, **Russia's** growth is expected to dip only slightly in 2012 (to 3.7%), thanks in part to the fiscal stimulus measures expected to accompany the March elections, before rising again to 4% in 2013. This forecast is nonetheless dependent on trends in commodities prices and on the performance of the agricultural sector, which are both expected to fall moderately.

The domestic economy is the main growth driver in **India** where growth is forecast to reach 7.5% in 2012 and 8% in 2013. However, the difficulties encountered in implementing government policies and the lack of structural reform limits the growth outlook. The monetary tightening in place since 2010 has had an adverse impact on manufacturing and on household consumption. Monetary policy is expected to ease, which should boost growth as from 2012.

The **Chinese** economy slowed in 2011 under the impact of monetary tightening and the global slowdown. GDP growth, which had reached 9.2% in 2011, is expected to slow to 8.1% in 2012. Imports will slow, but not as quickly as exports as domestic demand remains buoyant. Investment, the main engine of Chinese growth, has been slowing since 2011. *"The priority has switched from preventing the economy from overheating to maintaining growth in the face of the risk of a sudden slowdown in China, undoubtedly arising from the euro zone's difficulties",* says **Ludovic Subran**. The drop in inflation should, however, enable the government to concentrate more firmly on growth, by leaving room for easing monetary policies. GDP growth is expected to exceed 8.5% in 2013.

Country risk balance will remain negative

At the end of 2011, close to 60% of the countries in the Euler Hermes panel of more than 240 countries and territories posted levels of risk considered as significant or high. And the trend is for risk to increase. In December 2011, Euler Hermes revised the country ratings of four countries (Greece, Philippines, Slovenia and Czech Republic) with mediocre growth outlooks. Turkey was the only country to see an improvement in its rating with its risk score lowered from 4 (high) to 3 (significant) reflecting, despite still high external financing needs and soaring inflation, an increasingly diversified and responsive private sector and a more tightly controlled economic policy.

Corporate insolvencies set to climb again in 2012, particularly in Europe

Corporate insolvencies were still declining (down 3%) at world level in 2011. In 2012, Euler Hermes expects corporate insolvencies to increase by 12% in Europe and to rebound clearly at world level with an increase of 3%. Twenty-five of the thirty-three countries reviewed are expected to move into the red in 2012, with European countries topping the list, particularly those of the Mediterranean region (up by 19%) which have been severely weakened by the present crisis. Corporate insolvencies will continue to decline in the Americas and the Asia-Pacific region but with a clear change of pace, with decreases of respectively 7% and 1% in 2012 compared with 12% and 5% in 2011. The reason is the much weaker growth outlook.

"The very marked fall in activity at world level, combined with tighter monetary and fiscal policies, will be reflected in 2012 by an upturn in corporate insolvencies," says **Wilfried Verstraete**, Chairman of Euler Hermes' Group Management Board. *"This tendency will be all the more pronounced in Europe where depressed demand, flagging export outlets and the financing difficulties encountered by businesses point to a difficult convalescence, requiring businesses to pay particularly close attention to their trade receivables management."*

Appendix

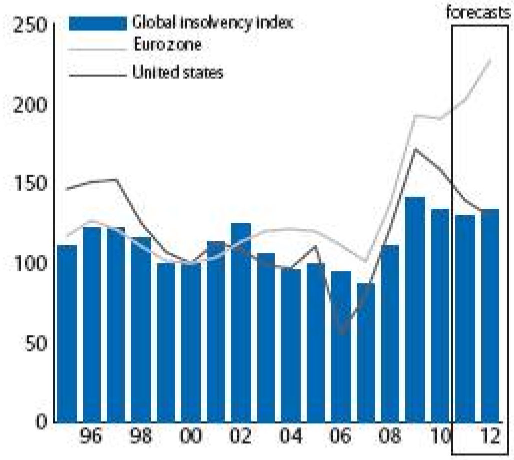
1- Euler Hermes' GDP Growth Forecast

GDP Evolution	2011	2012
World	3.0%	2.7%
Regions		
Europe - eurozone	1.6%	0.3%
Central and Eastern Europe	4.3%	3.1%
United States	1.7%	1.8%
Latin America	4.0%	3.2%
Middle East & Africa	3.2%	4.4%
Asia (except Japan)	7.3%	6.6%
OECD	1.4%	1.3%
Non-OECD countries	5.8%	5.1%
Countries		
Australia	1.9%	2.7%
Austria	3.2%	0.5%
Belgium	2.0%	0.4%
Brazil	3.0%	3.0%
Canada	2.4%	2.0%
China	9.2%	8.1%
Denmark	0.9%	0.3%
Finland	2.7%	1.1%
France	1.6%	0.4%
Germany	3.0%	0.8%
Greece	-5.5%	-2.7%
India	7.5%	7.5%
Ireland	0.6%	0.4%
Italy	0.5%	-0.2%
Japan	-0.3%	1.8%
Netherlands	1.5%	0.2%
Norway	1.5%	2.1%
Portugal	-1.4%	-1.9%
Russia	4.0%	3.7%
Spain	0.7%	0.2%
Sweden	4.6%	1.1%
Switzerland	1.8%	0.5%
United Kingdom	0.8%	0.6%
United States	1.7%	1.8%

Sources : IHS Global Insight. Euler Hermes forecasts

2- Evolution of the Euler Hermes Global Insolvencies Index

Global insolvency index
basis, 2000 = 100



Sources: National figures, Euler Hermes forecasts

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