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Press release

Euler Hermes Economic Outlook 2016:

Global GDP growth remains limited due to "Seven Dwarfs of Global Growth"

- Global growth will remain below +3% with no genuine acceleration: GDP forecast to grow by 2.8% in 2016 and 3% in 2017
- Seven key drivers of economic activity will remain too low, or limit positive spillovers for companies. Still, trade - expected to grow +0.9% in value this year - and private investment will begin recovering in advanced economies
- Emerging markets exposed to turmoil in China, US Fed interest rate hikes and commodity prices will be the most vulnerable
- Business insolvencies will increase by +1% worldwide this year, the first increase since 2009.

PARIS – 20 JANUARY 2016 – Global GDP will only grow by 2.8% in 2016 and not reach 3% until 2017 claims Euler Hermes, the worldwide leader in trade credit insurance. In its latest Economic Outlook report, titled "The seven dwarfs of global growth", the company's economic research department explored and analyzed trends in trade, consumption, investment and other drivers of GDP growth in 2016.

"The good news is that private investment is finally reawakening in advanced economies and could support growth," said Ludovic Subran, chief economist at Euler Hermes. "In Europe, rising turnovers, improving corporate profitability, a lower cost of capital and accumulated war chests could push positive surprises. In the US, the drop in oil and gas industry investment is hard to offset by non-energy sectors. However, after declining by -5% in 2015, business insolvencies are expected to increase by +1% globally this year, the first increase since 2009."

The report emphasizes the growing divergence between emerging markets and advanced economies. The limited pickup in advanced economies (+2.1%) contrasts with emerging markets' growth bottoming-out at +4% over the next 12 months. Recession-hit countries such as Russia and Brazil will continue to contract, but less severely. Other emerging markets will continue to experience below-trend growth, especially those exposed to China, US Fed rate hikes and commodity prices.

Euler Hermes has identified seven factors that will shape a limited – and still risky - improvement for the world economy in the coming months.

1. Sleepy trade: Euler Hermes expects world trade to grow +0.9% in value in 2016 and +3.7% in volume, compared to +6% each year between 2000 and 2010. After the first contraction in value since 2009 – global trade contracted by -9% in 2015 on the back of lower commodity prices and currency carnage -- trade is undergoing significant structural adjustments:

(i) value chains are shortening as technology and rising wages erode comparative advantages of Asian and Central European factory countries; and

(ii) China's rebalancing from industry to services reduces sales opportunities for primary and intermediate goods suppliers.

2. Grumpy emerging markets: 2015 was a very tough year for emerging markets and some countries will remain highly vulnerable to economic shocks and market volatility in 2016. The BRuNTS (Brazil, Russia, Nigeria, Turkey, South Africa) continue to face a slew of challenges, including tightening external financial conditions, currency depreciation, and difficult policy-making. Causes include persistently low revenues from commodity prices, the Chinese slowdown and a less supportive US monetary policy. They also suffer from their own internal pressures of inflation, domestic demand run-off and socio-political tensions.

3. Timid commodity prices: Oil prices will remain low for an extended period of time, creating a strong tailwind for net oil importing countries while continuing to hurt net oil exporters. Even if Brent prices stabilize at record low levels, the problem is the duration of the counter-oil shock, questioning the business model of countries whose public finances and monetary decisions are heavily reliant on the barrel.

4. Sneezy financial markets: Financial market volatility will continue into 2016 with challenging commodity markets adding pressure to the currencies of commodity exporters. Euler Hermes forecasts, however, that the price for basic input commodities such as nickel, soybeans and zinc could stabilize in 2016. In contrast, the outlook for manufacturing commodities such as coal, copper, iron ore or steel is bleaker, and prices could fall anew by -10%. Currencies could also experience a second round of depreciations (-5 to -10%) especially in Brazil, China, Russia, South Africa, Turkey to name a few.

5. Happy domestic consumers: In the face of global turmoil and structural changes in global trade, many countries are becoming more inward-looking, introducing protectionist measures to stimulate domestic consumption growth over imports. This trend is striking in emerging countries such as India, where consumption has grown by 13.2% since 2013 whereas imports have grown a paltry 2%. Meanwhile in developed markets, the boost from low oil prices will abate as inflation edges up ahead of wage growth, and purchasing power is reduced.

6. The Doc of policy mix: Despite falling emerging markets' reserves, global liquidity will remain abundant in 2016 thanks to asset purchases by the Bank of Japan, the ECB and the PBOC. Meanwhile, fiscal policy is turning from a significant headwind into a moderate tailwind in some major economies. In China, a strong increase in public expenditures is helping to keep growth on track. In Europe, fiscal austerity is over as most countries announced corporate tax rate or targeted stimulus packages for 2016.

7. Dopey decisions and political risk: The global political landscape is once again extremely uncertain in 2016, passing on to companies a lack of forward visibility. From Brexit risk in the UK to decisions on sanctions against Russia or Iran, to a stacked calendar of elections in some of the largest economies - including the US - uncertainties abound.

"The world economy had a rough year in 2015 when it realized the Chinese consumer could not save the world. From the reaction of equity markets in the opening weeks of this year, it is clear that confidence remains fragile and sensitive to policy changes and news that comes from the world's second-largest economy. However, let us look at some positives: the Eurozone is finally clawing its way back to growth and some powerhouses such as India, Indonesia and Mexico proved their resilience to the turbulence in the emerging world. More than ever, in 2016, differentiation will be the name of the game," summed up Subran.

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