Press release

Euler Hermes 2015 economic outlook: No fabled happy ending

PARIS – 29 JANUARY 2015 – Weak demand and ongoing geo-political uncertainty will not be enough to stall the rate of global economic growth this year. In its latest Economic Outlook entitled "*Not such a Grimm tale but no fabled happy ending*", Euler Hermes, the worldwide leader in credit insurance forecast a slight increase in global economic growth to 2.8% from an estimated 2.5% in 2014. However, the report's seven economic fables point to a recovery which is often far from a true happy ending.

"Consumers in post-recession countries are slowly returning to trend levels, but their caution is unlikely to wane in the near term," said Wilfried Verstraete, chairman of the Board of Euler Hermes. "In Europe, the European Central Bank is determined to break the vicious cycle of anaemic demand and stunted investment, but the pass-through to the real economy, companies' turnovers and profits will take time."

Last week the European Central Bank (ECB) announced that in March 2015 it will begin purchasing investment grade bonds in the secondary market issued by the Eurozone governments, agencies and EU institutions. The decision is late compared to the U.S. Federal Reserve or the Bank of England, and Euler Hermes expects limited positive impact on the region's real economy: +0.5 pp GDP growth and +0.3 pp on inflation over the next 12 to 18 months. Viewing the ECB action as part of a multi-year recovery scenario, Euler Hermes estimates that the Eurozone will grow by 1.1 per cent in 2015 – the highest in four years.

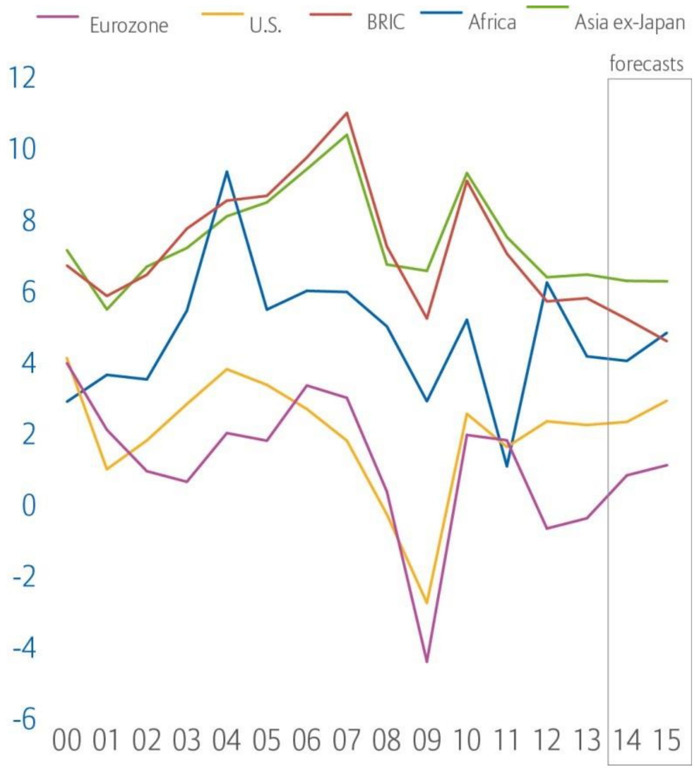
In spite of the anticipated first interest rate increase in a decade and more selective trade financing (domestically and abroad), U.S. growth will expand by 3.1% in 2015, buoyed by higher employment, increased consumer confidence and low energy prices.

"In the U.S., the additional liquidity created over six years, supporting asset prices and boosting the global economy, won't disappear soon," noted Ludovic Subran, chief economist at Euler Hermes. "The goose will keep laying golden eggs, as long as they don't kill it by raising rates too aggressively."

In China, growth is set to decelerate to 7.3%, the slowest in 25 years. The country will continue to focus more on domestically-driven growth and, crucially, reducing over-investment and excess capacity.

Emerging economies will expand slightly to 3.9% in 2015, after 3.8% in 2014. The report highlights that the recent dramatic drop in oil prices to around $50 per barrel would provide relief to many countries with high energy bills such as India and China, while exporters – the Gulf countries for instance – will have to adapt to lower revenues and be selective about investments and public spending.

"We continue to see political hotspots in the emerging world. Political risk can reverse investment flows and hit the 'pause' button on private sector development for quite some time, as proven in the Ukraine and Russia. They have been hit by a perfect storm: the drop in oil prices, economic sanctions, capital flight and a near-halving of the rouble," concludes Ludovic Subran.



Regional growth rates (%)
Sources: IHS, Euler Hermes

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