Press release

EULER HERMES
Our knowledge serving your success

Euler Hermes: Despite the recovery, global growth remains too low (below 3%) to prevent corporate insolvencies from increasing

PARIS – 11 OCTOBER 2016 – Despite U.S. Fed hikes, global liquidity will remain extremely abundant due to monetary easing by other central banks (ECB, BoE, BoJ, China), according to Euler Hermes, the worldwide leader in trade credit insurance. In its updated risk analysis for Q3 2016, the company notes, however, that global growth should reach its lowest level in 2016 (2.4%) and will in 2017 be below 3% for the 7th consecutive year, driven up by the US and emerging markets.

"Global liquidity should remain abundant due to further monetary easing by major central banks, despite the U.S. Fed hikes," said Ludovic Subran, chief economist at Euler Hermes. "However, low rates and monetary policies are far from uniform, so liquidity can move rapidly across the regions, generating volatility and turbulences."

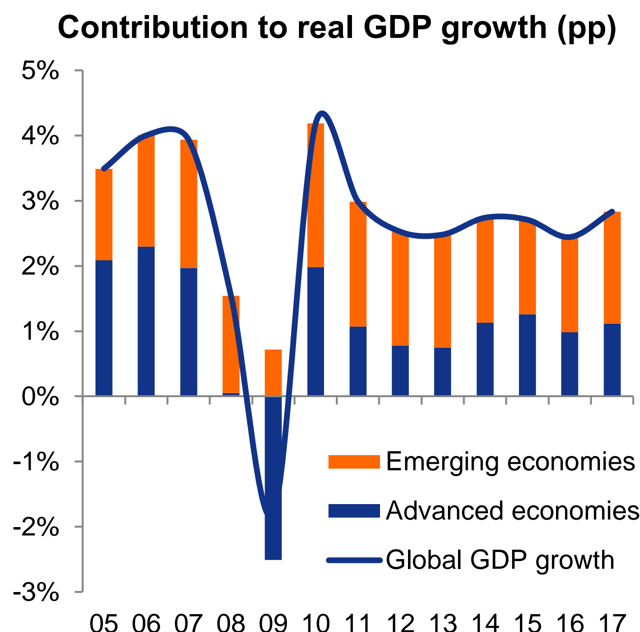
In this context, Euler Hermes identified various alerts coming from the regional tectonic plates:

The **U.S.** economy should benefit from resilient consumption due to increasing confidence and private investment. The stronger economic activity will alleviate the downward pressures on main suppliers of the industrial sector. The expected Fed hikes have limited impact on emerging market currencies. Both presidential candidates call for a fiscal package to support growth – expected to be at +1.7% in 2016 and +2.2% in 2017.

Fine-tuned macro policies in **China** are aimed at supporting growth, expected at +6.5% in 2016 and +6.4% in 2017. There will, however, be lower demand for foreign goods, negative price pressures and financial stress.

In **Europe**, growth is expected to remain stable at +1.6% due to a better policy mix. The ECB's Quantative Easing (QE) program is Europe's biggest safety belt and the Juncker plan has doubled to €630 bn. The region is characterized by multiple political uncertainties including Brexit, upcoming elections and several points of tension.

Emerging markets will face various situations. Expected growth of +3.8% in 2016 and +4.4% in 2017 will, respectively, contribute to 1.5pp and 1.7pp of global growth. While Brazil and Russia should exit recession, the credit crunch and exchange rate crisis impact several other countries such as Mexico, Nigeria, Turkey or Venezuela.



The main "tectonic shifts" – or how the world is moving slowly but strongly – are:

1. Despite the recovery, **global growth is too low to prevent insolvencies from increasing**. Insolvencies are expected to rise in most emerging countries in 2016 and in the USA, while decreasing in Western Europe. Worldwide, insolvencies are expected to increase for the first time since the 2009 global financial crisis. Big ticket bankruptcies are on the rise, although the number of insolvencies globally has not increased significantly in H1 2016 vs H1 2015. Payment terms are not improving globally: 1 in 4 companies is paid after 3 months.

2. **Commodity prices should remain low**, with a neutral effect on global growth in 2017. For commodity exporters, the economic situation should progressively stabilize, following two years of adjustment.

3. Over 2016-2017, **global trade growth should remain far below its pre-crisis average** (+7%). The main factors include demand shocks (ongoing Brazil and Russian crises), structural adjustment in demand (China's rebalancing, energy autonomy in the U.S.), tighter U.S. monetary policy implying currency depreciations, raising import costs and protectionism.

"More than 350 protectionist measures have been recorded worldwide in H1 2016, related to both trade in goods and in services," added Subran. "In addition, the overall electoral calendar, combined with some political and social hotspots will continue to generate turbulences until the end of 2017."

The savings glut remains a challenge and a drag on investment. US$7trn in cash remains glued to balance sheets, including US$2trn in the U.S. Yet, cross-border M&A is growing, reflecting a non-organic approach to internationalizing activity.

"Monetary support is like magma that grows and flows rapidly underground," concluded Ludovic Subran, chief economist at Euler Hermes. "The magma is good because it 'supports' the plate, but from time to time, it can lead to sudden eruptions - like a fall in oil prices, or bubbles. The main global regions are like tectonic plates: they move slowly, but can create friction between one another."

Euler Hermes has updated its Q3 2016 country risk rating:
Countries with better ratings: Cyprus, Portugal
Countries with worse ratings: Mexico, Mongolia, Papua New Guinea, Trinidad & Tobago
All other country ratings remain unchanged.

# # #

Euler Hermes Country Risk Methodology Summary

The evaluation of overall country risk is the combination of the Medium-Term Rating (Country Grade) and the Short-Term Rating (Country Risk Level).

The Medium-Term Rating (Country Grade) measures economic imbalances, the quality of the business climate, and the likelihood of political hazards. It uses a six-level scale from AA to D, in which AA is the lowest risk level and D is the highest risk level. The Medium-Term Rating is the combination of three scores:

• The Macroeconomic Rating (ME) is based on analysis of the structure of the economy, budgetary and monetary policy, indebtedness, the external balance, the stability of the banking system and the capacity to respond effectively to (emerging) weaknesses;

• The Structural Business Environment Rating (SBE) measures the perceptions of the regulatory and legal framework, control of corruption and relative ease of doing business; and

• The Political Risk Rating (P), which is based on the analysis of mechanisms for transferring and concentration of power, the effectiveness of policy-making, the independence of institutions, social cohesion and international relations.

The Short-Term Rating (Country Risk Level) identifies more immediate threats by focusing on the direction of economic output in the next 6-12 months and those macroeconomic indicators that can signal imminent financial crisis as a result of a disruption to financing flows. It is measured on a four-level scale from 1 to 4, in which 1 is the lowest risk level and 4 is the highest risk level. The four levels of risk are also labeled low, medium, sensitive or high in the Euler Hermes country risk map. The Short-Term Rating is the combination of two indicators:

• The Financial Flows Indicator (FFI), a measure of short-term financing risks for an economy that can impact payments of trade receivables between companies; and

• The Cyclical Risk Indicator (CRI) which measures the short-term disruptions in demand. It includes Euler Hermes macroeconomic and insolvency forecasts.

Together, these five risk dimensions constitute Euler Hermes' country risk methodology to assess the risk of non-payment by a company in a given country – a factor useful to businesses in their strategic decision-making.

Media Contacts

Euler Hermes Group Media Relations
Remi Calvet +33 (0)1 84 11 61 41
remi.calvet@eulerhermes.com

Publicis Consultants
Romain Sulpice +33 (0)1 44 82 46 21
romain.sulpice@mslfrance.com

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 6,000+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong Europe. The company posted a consolidated turnover of €2.6 billion in 2015 and insured global business transactions for €890 billion in exposure at the end of 2015. Further information: www.eulerhermes.com, LinkedIn or Twitter @eulerhermes.

Cautionary note regarding forward-looking statements: The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Euler Hermes Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) persistency levels, (v) the extent of credit defaults, (vi) interest rate levels, (vii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (viii) changing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the European Monetary Union, (x) changes in the policies of central banks and/or foreign governments, (xi) the impact of acquisitions, including related integration issues, (xii) reorganization measures, and (xiii) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.
The company assumes no obligation to update any forward-looking statement.