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Atradius Group

Economic Outlook
November 2012

Editorial

In our April Economic Outlook we emphasized the escalated Eurozone crisis and the impact it has on global economic developments. We observed that global growth was weakening as soft demand in the Eurozone, constrained bank lending, and increasingly risk averse investor sentiment were starting to take their toll. And indeed, the risk of a Eurozone breakup had certainly increased. We didn't - and still don't - see that happening, as we think there are compelling economic forces that will impose on politicians to take measures, perhaps grudgingly, to bring the crisis under control. In short, as we wrote in our special report 'Sticking Together' earlier this year, the costs of a breakup in economic and political terms are simply gargantuan. Nevertheless, one cannot exclude the possibility of politicians, or an electorate adrift, denying this, with Lehman-like consequences for the global economy.

In this report we will argue that we have not moved closer towards the abyss of another global economic crisis since our last Economic Outlook. And in that respect we provide some comfort to the reader. It can even be argued, on the basis of the measures that the European politicians took during the June 28-29 Summit, that the situation has improved, at least at a fundamental level. Indeed, with the Fiscal Compact, the ESM, European Banking Supervision and reinvigorated ECB action in the sovereign bond market, steps towards a fiscal union as well as a banking union have been taken. Those steps have clearly reinforced the architecture of the European Monetary Union, an observation shared by the financial markets as witnessed by the modest summer rallies. At the same time, as usual in European matters, the implementation of the steps is fraught with obstacles: mainly political. This is the main reason for us to be reluctant with a reconsideration of our assessment of the downside risk in the global economy. It is simply too early for that.

Meanwhile, the global economic environment has worsened during 2012 and global growth is expected to come out at 2.6%, led by emerging economies whilst advanced economies grow only marginally. This is broadly in line with expectations, which have hardly changed for 2012 as we will see in the report. For 2013 the outlook is somewhat more optimistic, with 2.8% growth globally, although as a result of continuous downward revisions: in April it stood at 3.2%. However, a bottoming out of these revisions does not seem far away, as the Eurozone turmoil has at least stabilized, the US has announced another dose of monetary stimulus in the form of QE3 and China is vigorously attempting to prevent a hard landing by inserting another US$ 158 billion investment programme. One can therefore arguably state that global growth, barring the occurrence of downside risks, will at least equal that of 2012. But it is heavily slanted towards emerging markets.

For the credit insurance industry, this means that the overall picture of upward pressure on the already high insolvency levels in the advanced economies will not change soon. This development is compounded by the still ongoing weakening of sovereign ratings. As these determine the bottom line for the price of credit, financing constraints for firms increasingly have a price dimension as well. I would like to thank my colleagues at the Atradius Economic Research Department, Paul Burger, Marijn Kastelein, Niklas Nordman, Daan Willebrands and Afke Zeilstra for their invaluable contribution to the text as well as the discussions on the tone and message of this Economic Outlook. Moreover, I am grateful to Niklas and Daan for shaping the Outlook by tireless drafting and editing.

John Lorié, Chief Economist Atradius

Executive summary

The global economic outlook for 2013 has weakened over the past six months, following a sequence of downward revisions across both developed and emerging markets. While we expect global growth to pick up slightly in 2013 compared to this year, the Eurozone is tending towards stagnation and the downward risks to the global outlook remain significant.

Key points

- Global economic growth will increase from 2.6% this year to 2.8% in 2013 as Western Europe climbs out of recession and emerging economies regain momentum.
- The Eurozone economy is expected to stagnate in 2013, growing 0.2%. Latin American growth increases to 3.8%, while Asian growth stabilises at 4.9%. The United States continues its weak recovery with growth of 2.1% predicted.
- In spite of expansionary monetary policy, credit conditions remain tight across advanced markets. The financial sector still consolidates its debt and seeks additional capital to comply with new regulation, particularly in the Eurozone.
- Our forecasts project a continued increase in insolvencies across many European economies, owing to the weak outlook for economic activity in 2012 and 2013.
- Risks to the outlook are still significant: an escalation of the Eurozone crisis, further moderation of growth in emerging economies and a spike in the oil price could individually or together undermine global economic growth.

Global growth is expected to be 2.8% in 2013: slightly up from 2.6% this year. The main driver of the global economy in the period ahead is still growth in Asia and Latin America. Emerging economies continue to catch up with advanced countries and grow in economic importance. In line with our previous forecast, trade growth is expected to be 2% this year and keep that pace in 2013. The Eurozone debt crisis management made significant progress in the second half of 2012 and is supporting our 'muddle through' scenario. While these steps are pointing in the right direction, the process is fraught with high implementation risk. An escalation of the crisis therefore still represents the largest risk to the global outlook. The risk of a steep increase in the price of oil, as spare capacity is limited and political tension is running high, has eased somewhat over the past six months but remains significant.

The United States economy is expected to grow by 2.1% in 2013: slightly lower than 2.2% this year. The recovery is still on track even if the growth rate is well below its pre-crisis average. The strained government finances, however, present a tangible risk to the current growth path. The Eurozone is expected to contract 0.5% this year before resuming positive growth of 0.2% in 2013. The southern countries in particular face a tough environment that will include budget deficit reductions, economic contraction, and difficult financial market conditions. Credit conditions in the Eurozone have been tight throughout the year and are expected to remain strict over the forecast horizon.

The outlook for emerging economies in 2013 is more positive than for advanced markets, with growth in Asia expected to remain at 4.9% and growth in Latin America picking up to 3.8%. Chinese economic growth has decelerated more than previously expected over the past six months, owing to a sharp slowdown in export growth, but is still expected to reach 8.1% in 2013. The Middle East and North Africa region (MENA) continues to experience political unrest and economic slowdown. The prospects for Emerging Europe remain strongly influenced by the restrictive credit conditions and weak economic climate in the Eurozone: nevertheless, growth in the region is expected to increase from 2.8% this year to 3.3% in 2013.

Against the backdrop of slightly weaker conditions compared to six month ago, this global economic outlook still suggests a challenging environment for businesses. Our insolvency projections for the Eurozone periphery signal further deterioration, even at already elevated levels. The perception of corporate credit risk remains negative and the corporate universe carries significantly higher default risk than a couple of years ago.

Part 1

The global macroeconomic environment

A slow descent, in line with expectations

Economic growth together with trade growth has slowed over the course of 2012, broadly in line with previous expectations. The current weak growth environment is projected to continue into 2013. Forecasts for economic growth in 2013 have been revised downward for both advanced and emerging economies since the publication of our previous Economic Outlook in April. The fundamental issues remain the same: the Eurozone crisis continues to dominate the global economic discussion and we have experienced broad-based weakness in economic indicators.

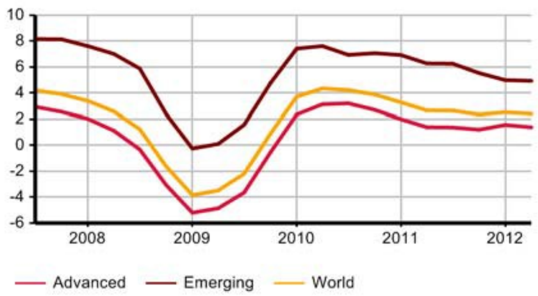
Some important steps in the direction of an overarching political structure for the Eurozone have been taken. While these policy decisions support our 'muddle through' assumption, large implementation risks remain. The negative momentum in expectations for 2013 is yet to be broken, and the downside risk to the current scenario has remained roughly unchanged since April.

Global growth has weakened further

Global growth ended up at 2.9% in 2011 and the first half of 2012 suggests further weakening for the full year (see Chart 1). Financing conditions and confidence deteriorated during the first half of the year. Global growth was down, at 1.7% in annualised terms (versus 2.6% in Q1), dragged down by a sharp drop in growth from 1.7% in the first quarter to 0.6% in the second quarter across advanced economies. The emerging economies also felt an impact on their growth, although to a more limited extent: to 4.3% in the second quarter, versus 4.6% in in the first quarter.

Chart 1: Real GDP growth

(Annual percentage change in quarterly GDP)

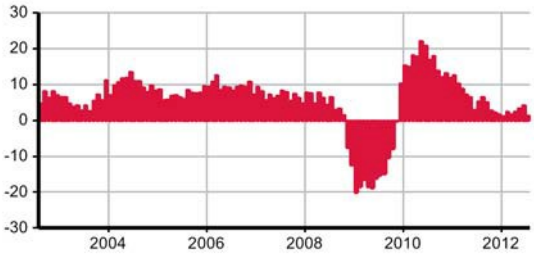


Poor performance in the Eurozone economy dominates the change in growth aggregate in advanced economies, as it contracted by 1% in the second quarter (compared to contraction of 0.1% in Q1). Economic growth in the United States held up better, although also decelerating to 1.5% (2% in Q1). Within the cluster of emerging economies, Emerging Europe has been most affected by the crisis. With growth at 2% in Q2 (the same rate as in Q1), conditions are markedly weaker than in 2011. Latin America and Asia, the global growth engines, showed more solid growth developments: 3.4% and 5.8% respectively. While these latter growth figures appear strong in a comparative context, they are negatively affected by the ongoing Eurozone crisis, which proliferates globally through trade and financial channels.

Global trade growth slowed significantly in 2011, to 5% from a post-crisis rebound peak of almost 14% in 2010. Growth in trade volumes has developed sluggishly in line with the moderation in global economic growth over the past six months and is expected to reach 2% for 2012 (see Chart 2). This growth figure is a clear sign of low confidence and rather weak economic performance, and is far below the 20-year average of 5.4%. Apart from muted GDP growth, global trade growth is also hampered by trade finance constraints and a trend towards an increase in protectionism.[1,2]

Chart 2: World trade developments

(Annual percentage change in global trade volumes)



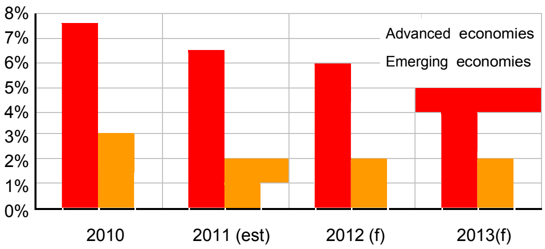
Source: IHS Global Insight

Fiscal consolidation…

As discussed in the previous Economic Outlook, governments in advanced economies are currently struggling to bring down debt levels in relation to GDP. On average these ratios grew rapidly: from below 80% in 2008 to more than 100% in 2010. This implies that advanced economies have very limited, if any, means to provide further stimulus via fiscal policy. On the other hand, governments in emerging economies appear to have more room for fiscal stimuli, showing an average debt-to-GDP level of about 35%.

Chart 3: Fiscal deficits, global

(Balance as percentage of GDP)

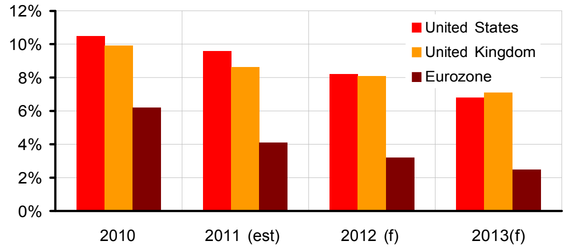


Source: IMF Fiscal Monitor

In view of this, it is not surprising that fiscal consolidation is the buzzword across advanced economies. Budget deficits as a percentage of GDP are, on average, declining: from about 7.6% in 2010 to an estimated 6.5% in 2011. This consolidation process is expected to continue in 2012 and 2013 (see Chart 3). Across advanced economies the Eurozone has seen the steepest correction, bringing the average fiscal deficit down from 6.2% in 2010 to 4.1% in 2011 (see Chart 4).

Chart 4: Fiscal deficits, advanced

(Balance as percentage of GDP)



Source: IMF

This number is expected to decrease further to 3.2% in 2012, but the aggregate figure masks large differences between Eurozone member states: in 2011 Ireland showed a deficit of 13.1% while the German equivalent was 1%. The United States, coming from a 10.5% deficit in 2010, is projected to reach 8.2% in 2012. A similar pattern can be detected for the UK. Fiscal consolidation reduces economic growth in the short run. The strong consolidation taking place in a number of Eurozone markets is thus a partial explanation for the growth differential between the United States and the Eurozone.[3]

Emerging economies have also been on a path of fiscal consolidation, with the already low 3.3% deficit in 2010 reduced to 1.7% in 2011. The aggregate deficit is expected to increase to 1.9% in 2012, but again large country differences underlie these figures; within the BRIC nations for example, India showed a 2011 deficit of 8.9% while China managed with 1.2%. China, however, will embark on an investment programme to upgrade infrastructure worth US$ 158 billion, pushing the budget deficit to 2.3% in 2013.

…and monetary expansion continues…

While governments across advanced markets are being forced (or feel forced) to apply fiscal austerity

[1] See The Economist (2012), September 8.

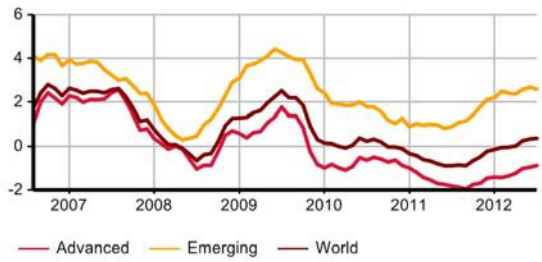
[2] Some worrying signs of protectionism have become apparent recently; Argentina is again involved in trade disputes; India, the United States and China have issues regarding steel; Brazil has announced a rise in tariffs on a large number of imported products.

[3] This difference is even more striking if one considers that the largest Eurozone economy, Germany, has an estimated 2011 deficit of 1%, which is to be reduced to 0.7% in 2012.

measures, monetary authorities continue to pursue an aggressively expansionary policy. This policy is characterised by a combination of very low interest rates and ample liquidity provision. The real interest rate in advanced economies is, since late 2009, negative: in the order of one percentage point. In emerging markets the average real interest rate is considerably higher but, at 2%, is still accommodative. In addition, the previous trend of increasing real interest rates in both advanced and emerging economies has levelled off somewhat (see Chart 5).

Chart 5: Real short-term interest rates

(Short-term rates adjusted for inflation, percentage points)

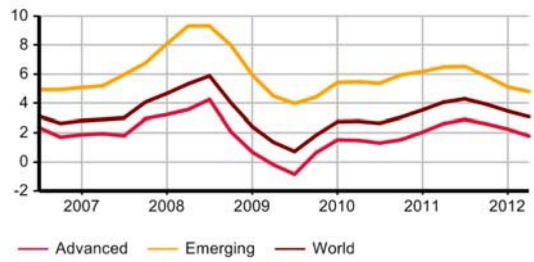


Source: IHS Global Insight

The weakening global demand has also translated into easing inflationary pressures (see Chart 6). Monetary authorities around the globe have responded to these developments by lowering official policy rates. This has also been the case in emerging economies.[4]

Chart 6: Consumer price inflation

(Annual percentage change)

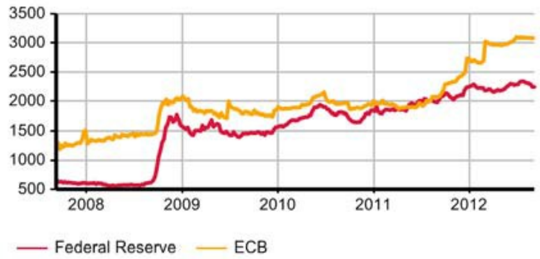


Source: IHS Global Insight

In the advanced economies, authorities have little room left to manoeuvre: the official rates stand at 0.25% (Federal Funds Rate), 0.50% (Bank of England Base Rate) and 0.75% (ECB Refinancing Rate). As to liquidity, the FED and ECB in particular have been providing ample liquidity to their banking systems since the onset of the 2008/09 crisis. This so-called 'liquidity provision' has continued since then, as indicated by the growth in central bank balance sheets (see Chart 7).

Chart 7: Balance sheet ECB and FED

(Assets billion of euro)



Source: IHS Global Insight; ECB, FED

The Long Term Refinancing Operations (LTROs) in early 2012 have further expanded the balance sheet of the ECB by about EUR 1 trillion. This observation also holds true for the FED, where the most recent Q3 move will provide yet another boost.[5] These measures have proved crucial in countering the serious interbank funding problems experienced in the Eurozone as well as the United States.

…while credit conditions remain tight

Despite the highly expansionary monetary policy in advanced economies, monetary authorities have not been able to turn the tide of deceleration in activity. Clearly fiscal consolidation has not helped, but there is more to this story. The banking system, especially in the Eurozone, is still going through a period of risk deleveraging. While the supervisory authorities in the United States have managed to restore confidence, the Eurozone, with its fragmented supervisory system, is struggling to implement new regulatory standards.

Through the common currency and high financial integration, the Eurozone banking system is exposed to the sovereign debt crisis and highly vulnerable to shocks. Against this background, it comes as no surprise that European bank share prices have declined substantially since 2010:

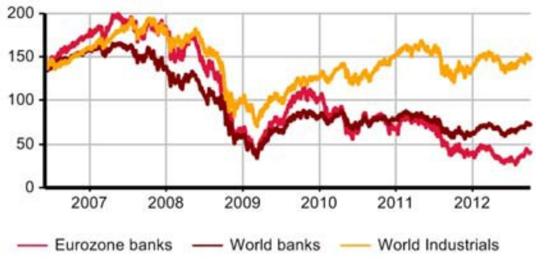
[4] Among the BRIC nations, rate cuts have taken place in Brazil (0.5%, in July), India (0.5%, in April) and China (0.31%, in July).

[5] On September 14, 2012 the FED announced that each month it will inject US$ 40 billion into the economy by purchasing mortgage backed securities, 'until the labour market has improved substantially'.

initially in line with banks in the rest of the world, and since mid 2011 significantly worse. The MSCI index of Eurozone banks currently stands at 50% of its 1998 value: 20 percentage points below the global bank index (see Chart 8).

Chart 8: Bank share prices

(MSCI share index: base 1998 = 100)

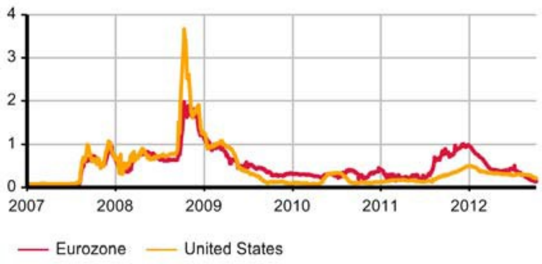


Source: IHS Global Insight

This signals an alarmingly low level of investor confidence in the European banking sector. But this lack of confidence is not limited to investors; the banks themselves still show distrust towards each other, as manifested in interbank market tensions. Evidence of financial market stress is still visible in the difference between the interbank funding rate and overnight swap rate, even if it has been falling back over past months (see Chart 9). Following the LTRO, the Eurozone spread eased to more normal levels, comparable to that of the United States.

Chart 9: Tension in interbank markets

(Interbank rates minus overnight rate swaps, percentage points)

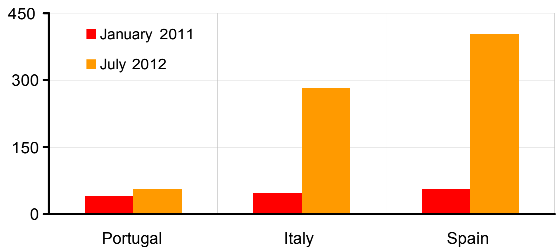


Source: IHS Global Insight

This seemingly favourable development, however, is masking the fact that banks in the southern part of the Eurozone have significantly less access to interbank funding. With the deposit base being eroded, as depositors increasingly seek refuge in Northern European banks, instead they have to rely on the ECB for funding (see Chart 10).[6] Clearly, that is not a sign of good health.[7]

Chart 10: ECB funding of Banks

(EUR billion)

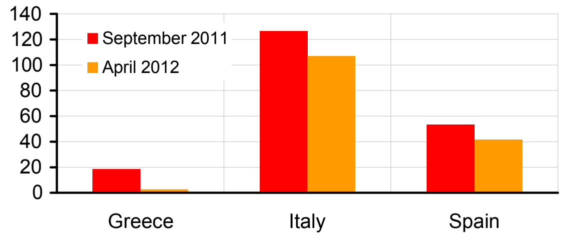


Source: Financial Times

Moreover, the risk related to sovereign debt is still weighing on Northern European banks. Banks are still holding large portfolios of intra-Eurozone sovereign bonds. And indeed, large portfolios of Southern European sovereign bonds are held by German and French banks. These portfolios were reduced following the escalation of the sovereign debt crisis in the second half of 2011, but not spectacularly so (see Chart 11).

Chart 11: French and German banks

(Exposure on government bonds, in USD billion)



Source: BIS

The LTRO has had limited impact on this. More important was the purchase of sovereign debt by local banks. In the first two months of the LTRO, Spanish banks bought EUR 47 billion Spanish government bonds, bringing the portfolio to EUR 220 billion; for Italian banks these figures are EUR 63 billion and EUR 267 billion.[8] These purchases of sovereign bonds with relatively high risk have

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[6] Under normal circumstances the funding would have been obtained through the interbank market, by banks that have surplus liquidity. This is one reason why the ECB balance sheet has grown so dramatically since the LTRO.

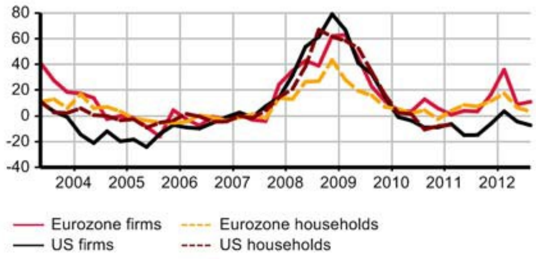
[7] Neither is the fact that in June Moody's downgraded no less than 15 European and US banks with large capital market operations, a move preceded by S&P in November 2011.

[8] Banks could borrow at the ECB at 1% interest rate over a 3-year horizon, whereas the Spanish government bond yield hovered around 6%.

clearly raised the risk profile of the banks - and, in turn, of the governments that will ultimately have to stand behind these banks. The by-product of the LTRO is that the sovereign debt crisis now weighs even more heavily on the banking system, and in particular on its vulnerable Southern part.

Chart 12: Conditions for loan supply

(Net percentage balance of tightening versus easing conditions)

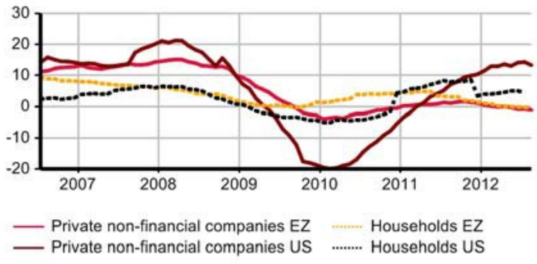


Source: IHS Global Insight; ECB, FED

The implications for economic growth of a banking system that is in poor health are severe. It causes a dysfunctional credit channel: banks are simply very reluctant to lend. That is expressed by the continued tightening of conditions for loan supply since the 2008 crisis in the Eurozone. In the United States, however, conditions have been easing since early 2010 (see Chart 12).

Chart 13: Lending growth

(Annual percentage change)



Source: IHS Global Insight

These patterns in lending conditions are also mirrored in the development of credit growth, which has recently turned negative in the Eurozone: at the same time credit growth has clearly gathered pace in the United States since 2011 (see Chart 13). The overall picture emerging for the Eurozone is for an expansionary monetary policy that is unable to stimulate growth due to banking sector health issues. Monetary transmission is not properly working and credit conditions are likely to remain tight also in 2013.

Policy steps in the right direction

On the basis of the discussion above, it can be concluded that the Eurozone is facing a sovereign debt crisis as well as a banking crisis, and that these two are closely interlinked. The crisis weighs heavily on growth prospects: the Eurozone records the weakest growth performance among the advanced economies and the situation also spills over to economic developments elsewhere. From a global perspective it is therefore of utmost importance that effective policy measures are taken to bring the Eurozone crisis under control.

Four such important policy steps have indeed been taken since the previous Economic Outlook in April: the Fiscal Compact, the ESM, steps towards a European Banking Union, and the ECB purchase of government bonds (see Box 1, 'Policy steps in the Eurozone crisis'). These steps were taken in conjunction with the June 28-29 European Summit, under high pressure to avoid renewed escalation of the crisis.[9] Prior to the Summit, tensions in the financial markets had run high. A Greek Eurozone exit was rapidly becoming more likely after the first election and speculation over Spain and Italy being the next candidates for departure was mounting. Spanish and Italian 10 year bond yields rose above 7%, pushing the spread with Germany up to a level higher than 6 percentage points.

The Fiscal Compact provides some comfort as to avoiding sovereigns becoming (or staying) debt loaded, thus addressing the sovereign leg of the crisis. This represents an improvement compared to the Stability and Growth Pact because it introduces a number of federal (as opposed to inter-governmental) elements, thus taking a step towards a Fiscal Union. These elements contain, for example, the role of the European Commission in policing the Compact and the European Court of Justice for filing complaints about other Member States' (fiscal) behaviour.

While the Fiscal Compact addresses the sovereign leg of the crisis, the ESM and the step towards a European Banking Union address the banking

[9] The Fiscal Compact was initiated back in December 2011, but enhanced throughout 2012 (following additions requested by the French president Francois Hollande).

sector's woes. Banks may now be recapitalised directly by the ESM (provided the European supervision is in place), which aims to avoid the dangerous feedback loops between the banking sector and sovereign weaknesses. Irish sovereign debt may be directly reduced if the ESM takes over the government loans to the banking sector. Spain's debt burden will not have to be increased if EUR 100 billion is lent by the ESM to its ailing banking sector.

European Banking supervision, as part of a European Banking Union, allows for centralised action (such as bank closure) on international banks in times of crisis, rather than the fragmented approach that we have witnessed since the 2008 crisis in the Eurozone. This step will inject confidence in the (European) banking sector, which is now obviously lacking. [10] Finally, the announcement by the ECB to purchase government bonds in the secondary market is intended to stem contagion on the back of fears that the Eurozone may break up.

We consider these steps important, both when it comes to restoring confidence and in addressing the underlying causes of the crisis. [11] A lot still needs to be done in this regard, however, and the implementation risk is high. The details and implementation plan of the Banking Supervision framework, the establishment of a European deposit guarantee system and a higher level of ESM lending capacity, all need to be put into practice.

[10] That in turn will help reduce the actual deposit flows away from Southern European Banks towards their Northern counterparts. A European Deposit Guarantee System, another leg of the European Banking Union still to be agreed upon, is clearly complementary in this respect.

[11] The financial markets seem to agree to that position as the Spanish and Italian 10 year bond spread versus the German were down at 4.5% and 3.6 % respectively in the beginning of October.

Box 1: Policy steps in the Eurozone crisis

1. Fiscal Compact

Intended as a reform of the failed Stability and Growth Pact, the Fiscal Compact (signed in March 2012) should be seen as a step towards a Fiscal Union, or at least a guarantee of budgetary disciple within the European Union (and therefore the Eurozone). It requires the member states of the EU to incorporate budgetary discipline into national legislation: the budget deficit should be less than 3%, whereas the structural deficit should be lower than 1% (or 0.5%, dependent on the level of the national debt). In addition, a self-correcting mechanism should be included if the deficit exceeds the pre-established levels. The European Commission is given an important role in policing the agreements. Moreover, any member State can force other Member States to comply with the Fiscal Compact by turning to the European Court of Justice. The Fiscal Compact will take effect on 1 January next year, provided that it has been ratified by at least 12 Member States. During the 28-29 June European Summit it was agreed that the Fiscal Compact would be modified to include growth enhancing measures. This allows for a higher probability of smooth ratification in the German and French parliaments and provides a signal that the Fiscal Compact is not (solely) about austerity.

2. ESM

The European Stability Mechanism (ESM) is designed to lend to countries in trouble in the same way as the ECB does to banks. It replaces the temporary programmes, the European Financial Stability Facility (EFSF) and European Financial Stability Mechanism (EFSM) with a similar objective. The ESM is expected to be put in place during the fourth quarter of 2012, now that approval of the German Constitutional Court was received on 12 September. The ruling was subject to the condition that paid up capital for Germany higher than EUR 190 billion is to be approved by the German parliament. The 17 Eurozone countries will provide EUR 80 billion paid in capital: the remainder of the approximately EUR 500 billion lending capacity will be drawn from capital markets. Out of that amount, EUR 355 billion is available for new loans; the current EFSF/EFSM loans to Greece, Spain and Italy will be taken over by the ESM. New ESM loans will not be senior relative to other debt issued. During the 28-29 June Summit it was agreed that the ESM would also be allowed to lend or provide capital to banks, on the condition that a European Banking supervision mechanism would be put in place.

3. European Banking Union

At the same Summit, steps towards a Banking Union were agreed. It was agreed that European Banking supervision should be created: a responsibility to be taken on by the ECB. The European Commission was asked to come up with proposals to clarify a number of issues. These issues included the role of the national supervisors versus the ECB, and whether the ECB will focus only on large institutions with cross-border operations or also include smaller banks. The proposals of the European Commission that were released mid-September contained an introduction of a Single Supervision Mechanism (to come into play on 1 January 2013, with all banks to be included at the latest one year later). While the Commission envisages a supervisory role for the ECB, the actual work may largely be carried out by national supervisors. The details of the European Banking supervision still need to be approved by all participating EU member states.

4. ECB purchase of government bonds

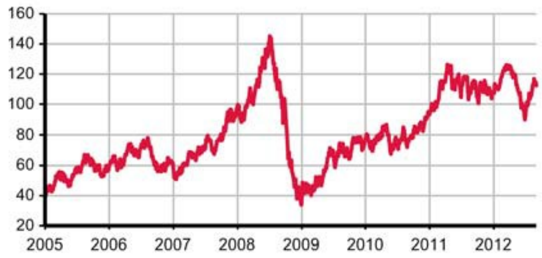
In early September 2012, the ECB announced that it will be prepared to purchase an unlimited amount of government bonds in the secondary market: this in an attempt to address financial market tensions and increasing bond yields related to the risk of a Eurozone breakup. This action, which is inflation-neutral, will be tied to bonds issued by governments that are in compliance with the conditions set by the IMF and the European Commission: if no longer in compliance, the ECB may stop purchases. The Open Market Transactions are kept inflation-neutral by 'sterilising' the action by requesting banks to place additional deposits or to sell other assets. Moreover, in line with the stance taken by the ESM on this matter, the ECB will not consider itself to be senior debt holder for bonds being purchased under the programme.

Slightly easing oil price pressures

In the previous Economic Outlook we stressed the risks to the global economy of a higher oil price: at the time around US$ 125 per barrel. We argued that a serious increase in the oil price, to a level of US$ 150 per barrel, couldn't be afforded given the depressed state of the global economy. Arguably, the oil price now poses somewhat less of a threat. The oil price has been very volatile over past months but a trend towards the previously feared levels has not materialised. The price peaked at US$ 128 in March as geopolitical tensions over the Iranian nuclear programme mounted (see Chart 14).

Chart 14: Oil price

(Brent crude oil, spot price in USD per barrel)



Source: IHS Global Insight

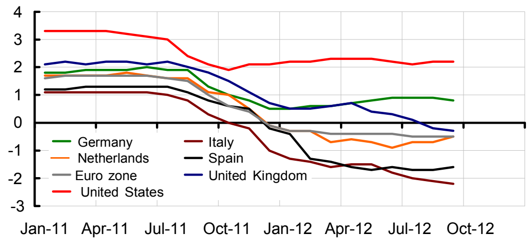
Subsequently, it raced down to below US$ 100 per barrel on the back of fears related to a Eurozone breakup (that would seriously impact global demand) and low stocks. Since then it moved back to just below US$ 120, as stock levels were building and the Eurozone crisis eased somewhat. Risks to the oil price seem to be leaning somewhat to the upside if one considers that global demand will pick up slightly in the period ahead. But that upswing has yet to materialise and, if the Iranian crisis eases, the oil price may decline. Overall, the concerns of a significantly higher oil price materialising and threatening the global economy have eased. [12]

Weaker growth forecasts for 2013

Throughout this chapter we have described the rather weak state of the global economy that has prevailed since the escalation of the Eurozone crisis in 2011. This weakness in economic conditions that has developed further during 2012 was broadly envisaged six months ago, in particular concerning the advanced markets. The negative forecast revisions for 2012 that had taken place since mid 2011, as the crisis erupted, already showed signs of bottoming out back in April this year. The 2012 forecasts have remained fairly stable as the year has progressed; with the exception of Italy and the United Kingdom (see Chart 15).

Chart 15: GDP growth forecasts 2012

(Monthly forecast revisions since January 2011, percent)

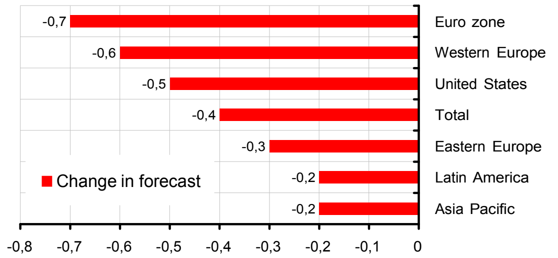


Source: Consensus Forecast

Regarding the expectations for 2013, however, the pattern of forecast revisions has been negative since March. Between March and September 2012 the forecasts have been markedly revised downwards, signalling that the envisaged upswing for 2013 is fading. This picture holds globally: a reduction of 0.4 percentage points, from 3.2% to 2.8% (see Chart 16). The emphasis is on weaker growth in the Eurozone and the United States in 2013. Forecasts for growth in the Eurozone have been reduced by 0.7 percentage points from 0.9% to 0.2%. A similar large downward revision has taken place for the United States from 2.6% to 2.1%. This negative momentum in expectations is visible across the globe: all regions now show lower growth in the year ahead compared to just six months ago.

Chart 16: Change in GDP forecasts, 2013

(Forecast revisions between March and September, %)



Source: Consensus Forecasts

It should be noted, however, that the current growth forecasts for 2013 still represent slightly better economic conditions compared to this year,

[12] To corroborate this position, we point to the role of Saudi Arabia, which has taken up its old role of swing producer, providing a back stop for oil price rises based on thin stock levels. See 'IEA allays oil fears with Saudi pledge', Financial Times, September 20, 2012.

except for the United States and Asia Pacific where growth is projected to remain flat. Global growth is expected to increase slightly: to 2.8% in 2013 from 2.6% in 2012 (see Table 1). The trend of improvement is most visible across countries in Western Europe: on average this region is expected to move from contraction of 0.2% this year to 0.5% growth next year. The corresponding figures for the Eurozone are -0.5% and 0.2%, respectively.

These are indeed very poor growth rates, close to stagnation, but nevertheless representative of a return to positive growth. While the Asia Pacific region is expected to maintain its growth rate of 4.9%, Latin America improves from 2.9% to 3.8% next year. Following the revised expectations, the growth gap between advanced economies and emerging markets is again widening in 2013.

Table 1: Real GDP growth - Major regions

	2009	2010	2011	2012f	2013f
Western Europe	-4.2	1.9	1.5	-0.2	0.5
United States	-2.4	3.0	1.8	2.2	2.1
Eurozone	-4.0	1.8	1.5	-0.5	0.2
Asia Pacific	1.5	7.1	4.6	4.9	4.9
Latin America	-2.3	6.3	4.2	2.9	3.8
Total	-2.1	4.3	3.1	2.6	2.8

Source: Consensus Forecasts (September 2012)

In view of the GDP growth forecasts for 2013, we can conclude that this Economic Outlook is weaker than six months ago. And the degree of uncertainty surrounding this forecast is still very high. Some important steps in terms of economic policy have nevertheless been taken since then and, if they are implemented as envisaged, it will gradually reduce the risk of further crisis escalation.

At any rate, we consider the policy initiatives that have been put forward (and agreed upon) to be relevant in preserving the Eurozone. Though there is certainly a long way to go, the qualification of some 'stabilisation' of the situation in the period ahead is unlikely to be far off the mark. But it is too early to change our position: that the downside risk to the global forecast for 2013 remains significant. In that sense this Outlook is written in a tone very similar to the previous one.

Part 2

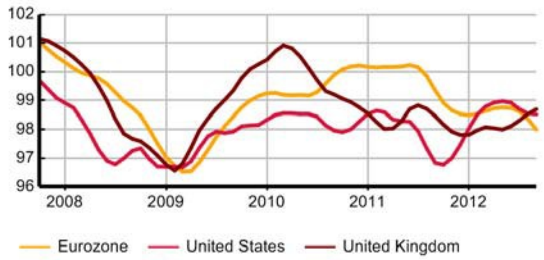
Prospects and risks in advanced economies

Weaker outlook across the board

As discussed in the previous chapter, the already bleak outlook for 2013 presented in the April Economic Outlook has weakened further. The more pessimistic expectations of real economic conditions in 2013 are also reflected in weak consumer confidence (see Chart 17).

Chart 17: Consumer climate indicators

(Index 100 = Neutral)

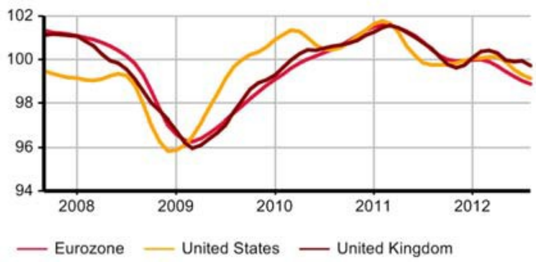


Source: IHS Global Insight; OECD

Consumer confidence is low across all advanced economies and has recently deteriorated further in the United States and the Eurozone. The United Kingdom has actually recorded an improvement over recent months, but from a rather suppressed level. The pattern of softening conditions is also visible in producer confidence indicators (see Chart 18). In the United States and the Eurozone, producer confidence has reached its lowest level since late 2009.

Chart 18: Industrial confidence

(Manufacturing confidence index 100 = neutral)



Source: IHS Global Insight; OECD

The drop in confidence that has taken place over past months is fully consistent with deteriorating projections for economic growth. As mentioned in the global overview, growth rates for 2013 have been revised downward for all advanced countries over the past six months: especially in the Eurozone. The Eurozone aggregate is currently forecast to grow by no more than 0.2% in 2013, after an expected 0.5% contraction this year (see Table 2). Also, for the United States the outlook for 2013 has been adjusted downward and we now expect growth of 2.1%, maintaining this year's performance. The United Kingdom is projected to improve in 2013: to 1.3% from -0.3% this year.

Table 2: Real GDP growth - Major markets

	2009	2010	2011	2012f	2013f
Eurozone	-4.4	1.8	1.5	-0.5	0.2
United States	-3.5	3.0	1.8	2.2	2.1
United Kingdom	-4.4	1.8	0.8	-0.3	1.3

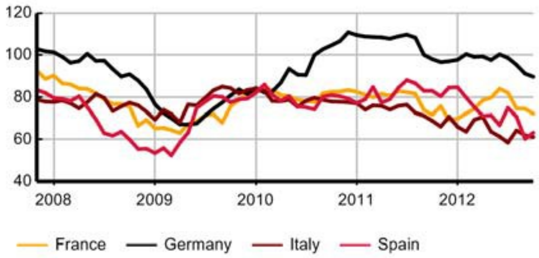
Source: Consensus Forecasts (September 2012)

Eurozone: muddling through

Economic growth prospects in 2013 have faded across all Eurozone member countries since April. Consumers continue to worry, and confidence has continued to decline on a broad scale (see Chart 19). A low level of consumer expenditure is one aspect that keeps growth from recovering: facing high policy and economic uncertainty, consumers are increasing savings and reducing their debts.

Chart 19: Consumer confidence

(Index 100 = Neutral)

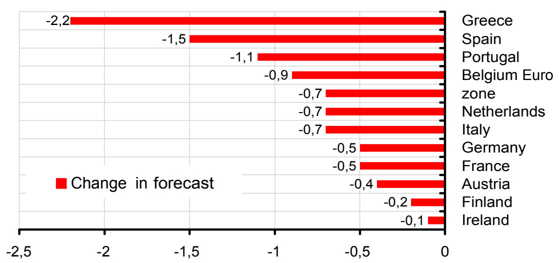


Source: IHS Global Insight; ICON

That the Eurozone suffers from negative momentum in expectations is clear from the continuous downward revisions of growth forecasts. The development of consensus growth forecasts for 2013 between March and September this year shows that all member states are affected (see Chart 20).

Chart 20: Change in GDP forecasts, 2013

(Forecast revisions between March and September, %)



Source: Consensus Forecasts

Greece, Spain and Portugal stand out: the growth forecasts have been cut every month since the beginning of 2012, in excess of 1 percentage point in total. But the projection for German economic performance in 2013 has similarly been weakening, being 0.5 percentage points lower than the previous Outlook.

Growing nowhere

The current economic growth projections for a number of Eurozone markets signals a very weak macroeconomic climate in 2013 (see Table 3). All Eurozone member states are expected to show below trend growth or contraction next year.

Table 3: Real GDP growth - Major markets

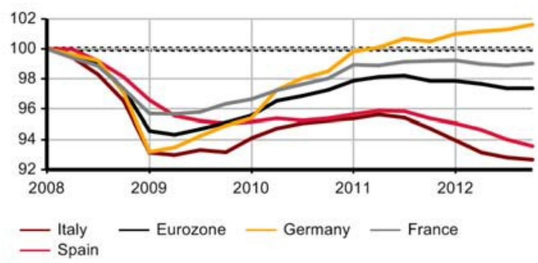
	2009	2010	2011	2012f	2013f
Austria	-3.8	2.5	2.3	0.7	1.1
Belgium	-2.7	2.4	1.8	-0.1	0.4
France	-2.6	1.4	1.7	0.1	0.4
Germany	-5.1	3.7	3.0	0.8	1.0
Greece	-3.3	-3.5	-6.9	-6.3	-3.3
Ireland	-5.5	-0.8	1.4	0.1	1.2
Italy	-5.1	1.2	0.5	-2.2	-0.6
Netherlands	-3.5	1.6	1.1	-0.5	0.5
Portugal	-2.9	1.4	-1.6	-3.4	-2.2
Spain	-3.7	-0.1	0.5	-1.6	-1.4
Eurozone	-4.4	1.8	1.5	-0.5	0.2

Source: Consensus Forecasts (September 2012)

Again, the countries at the heart of the Eurozone crisis are also the ones forecast to perform worst next year; Italy and Spain are expected to contract by 0.6% and 1.4% respectively. In the case of Greece and Portugal, the corresponding negative figures are 3.3% and 2.2%. This will make it more difficult for those countries to balance their budgets and improve their financial conditions. Germany is projected to grow 1.0% in 2013, but this is still well below pre-crisis levels.

Chart 21: Real GDP - Eurozone

(Level index, 2008Q1 = 100: forecast for 2012)



Sources: IHS Global Insight; OECD

The weak performance in 2012 and 2013 follows the previous spell of deep contraction in 2009 and its subsequent slow recovery. This means that the economies of many countries are still much smaller than they were before the crisis (see Chart 21).

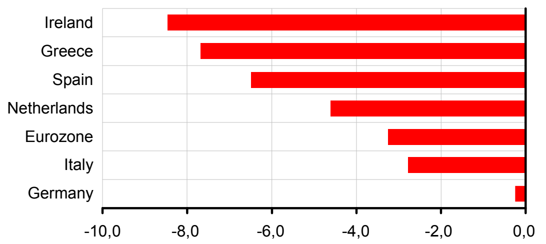
Germany is the only country that has recouped its previous output loss, which it did at the start of 2011. All other countries are still struggling to catch up. As also indicated in the previous Economic Outlook, it is likely that it will take a decade for the Eurozone as a whole to get back to previous wealth levels: in this sense it is possible to talk of a lost decade for the Eurozone. For some countries, such as Portugal and Greece, it will take much longer to restore their economies.

Debt sustainability

The weak expectations of future economic performance are exercising increasing pressure on the member states that have received bailout packages. The programme for Greece is far behind schedule, mainly due to much poorer than anticipated economic growth. The Greek economy is currently expected to contract by 6.3% in 2012: only a year ago the consensus anticipation was a contraction of just 0.5%. This means that the Greek government is finding it increasingly difficult to cut its deficit and that the negotiated support funds are insufficient to finance the gap (see Chart 22).[13]

Chart 22: Budget balances 2012

(Fiscal balance as percentage of GDP)



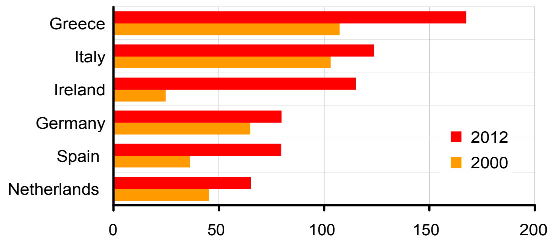
Source: IHS Global Insight

It is not just Greece that is having a difficult time abiding by the bailout conditions. Ireland and Portugal are both seen as countries that have taken the right measures and generally followed the advice from the international community. But, in its latest evaluation report on Portugal, the IMF recommended that an additional year is needed to bring the deficit below the 3% target. Portugal will now have to achieve this in 2014 instead of 2013. Also for Ireland, the IMF warned that the schedule can be met only with additional support from the EU: and if the Eurozone crisis is brought under control within a year.

The poor economic performance and difficulties reducing the budget deficits lead to higher government debt burdens (see Chart 23). Debt in Greece, Italy and Ireland is now above 100% of GDP. Debt has increased in all countries compared to before the crisis: even in Germany, where the debt level has climbed from 65% of GDP in 2000 to 80% in 2012.[14] The increase in debt has been strongest in Ireland and Spain, following the sharp contraction in property markets and subsequent financial sector bailouts by their governments.

Chart 23: Public debt levels

(Government debt as percentage of GDP)

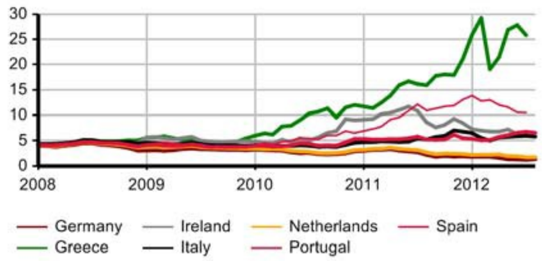


Source: IHS Global Insight

The weakening economic prospects, in combination with high debt levels, have caused investors to worry about the ability of governments to repay their loans. This is reflected in the high interest rates on government bonds in vulnerable Eurozone countries (see Chart 24).

Chart 24: 10-year government bond yields

(Yield expressed as annual rate, in percent)



Source: IHS Global Insight; OECD

The high yield spreads (to a large degree reflecting the risk of a Eurozone breakup and general flight to safety) has declined since the ECB announced that it is willing to buy an unlimited amount of government bonds under certain conditions. Together with the other policy steps discussed in

[13] It is therefore likely that Greece will either receive additional aid, or that payment on its existing loans will be pushed outward in time. See Lorié, J. et al (2012), 'Griekse staatsschuld onhoudbaar', ESB, Nummer 4639 & 4640, juni.

[14] This debt ratio does not include other liabilities such as the guarantees provided under the EFSF or ESM.

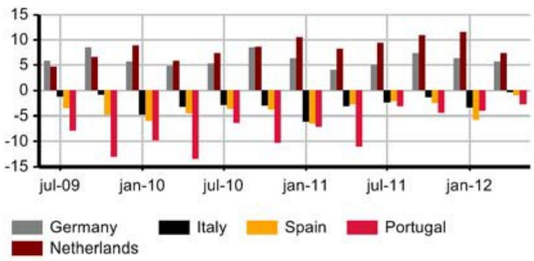
the first chapter (see Box 1) this action has eased the most acute funding pressures and bought time for structural reforms and fundamental rebalancing.

Fundamental rebalancing required

Another way to reduce the need for foreign financing, besides reducing the budget deficit, is by improving the current account position. While all vulnerable countries within the Eurozone have shown large current account deficits over past years, the Northern core countries have shown large surpluses (see Chart 25).

Chart 25: Current account

(Current account, percent of GDP)

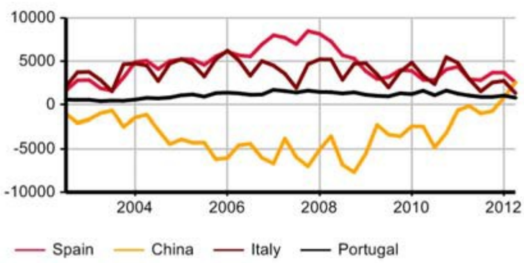


Source: IHS Global Insight

This implies a net flow of goods from north to south and a financial flow form south to north.[15] In order to reverse this trend, Southern European countries must find ways to improve their international competitiveness. The latest figures show that Italy has almost managed to balance its current account position, as have Spain and Portugal. The main surplus country within the Eurozone is Germany: its current account position relative to Spain, Italy and Portugal has indeed shifted (see Chart 26).

Chart 26: Current account balance Germany

(Balance on current account, million euro)



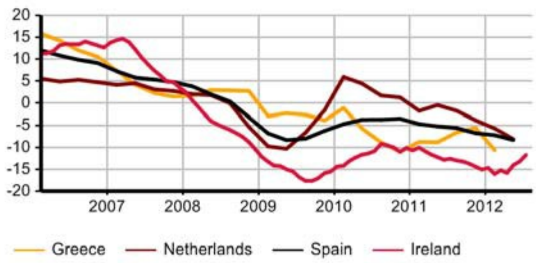
Source: IHS Global Insight; Deutsche Bundesbank

That the overall current account balance for Germany has stayed positive is instead the result of strong exports to other countries, mostly outside of the Eurozone.[16]

Another aspect of rebalancing is the ongoing correction of overvalued property markets in many Eurozone countries.[17] In earlier years, the sharp contraction in house prices across vulnerable markets has continued to weigh on economic growth and financial sector performance: Ireland and Spain being the most prominent examples. Decreasing property values imply a strong increase in households with negative equity and a build-up of non-performing loans. In the end, as we have seen, this forces governments to bail out private banks: in August this year Spain officially requested EUR 100 billion of international aid to support its ailing banking sector. The impact of decreasing prices is currently visible throughout more member countries. The Netherlands, a country that is projected to display negative economic growth in 2012, is also experiencing falling house prices (see Chart 27).

Chart 27: House price inflation: Eurozone

(Annual percentage change in national level indices)



Source: IHS Global Insight

United States: balancing on the edge

The United States economy, which has been slowly recovering over the past two years, is currently facing moderation in activity. Recent economic data points to a marginal slowdown in growth: the purchasing managers index has developed weakly over the months since May and is currently close to neutral (see Chart 28).

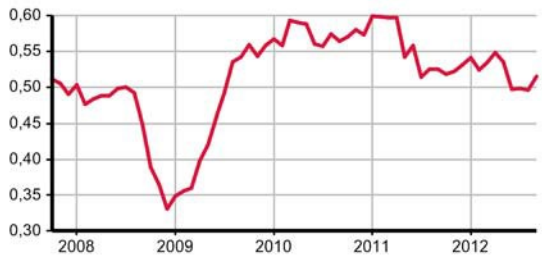
[15] See Paul de Grauwe (2012), 'In Search of Symmetry in the Eurozone', CEPS Policy Briefs, May.

[16] In fact, the balance with China improved strongly since 2009 and has turned positive since the beginning of 2012.

[17] For the effects of the housing cycle, see for example IMF (2012) 'Global Housing Cycles', IMF Working Paper, August.

Chart 28: United States PMI

(Purchasing Managers Index, above 0.5 indicates expansion)

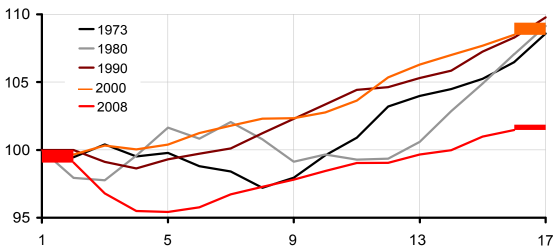


Source: IHS Global Insight

The soft business confidence is consistent with a dampening of future economic growth, which is currently expected to reach 2.1% in 2013. Private consumption was a major contributor to economic growth on an annual basis in the second quarter of 2012 and consumer demand is expected to continue to contribute positively to growth, although at a lower rate. Investment is also expected to contribute positively, while government consumption and net exports are expected to reduce growth. The weaker global economic prospects, in combination with the need for sharp consolidation of government finances, make the growth outlook extremely uncertain. Despite unprecedented monetary policy stimuli, the current recovery is relatively slow compared to other post-crisis episodes (see Chart 29).

Chart 29: Previous US recessions

(Real GDP, index Q2 2008 = 100)

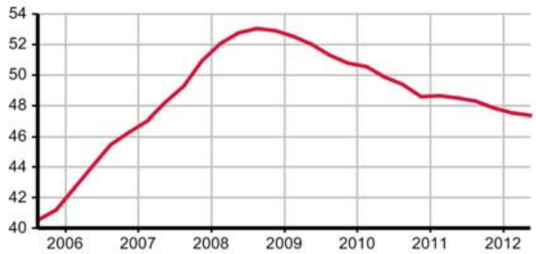


Source: IHS Global Insight

The recovery following the 2008/09 crisis has been much slower compared to other recession periods, as a result of financial deleveraging [18] where households, firms and the financial sector have continued to reduce their debts. This process is visible in the reduction of private sector debt: the total debt per person in the United States has decreased considerably since the end of 2008 (see Chart 30).

Chart 30: Debt per capita

(Total debt balance per capita, thousands USD)

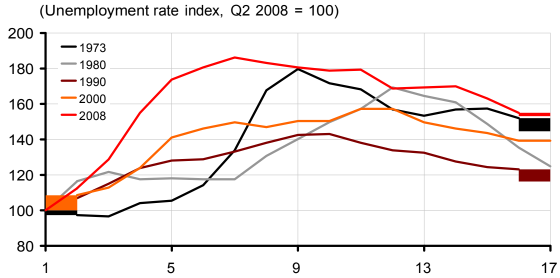


Source: IHS Global Insight; Fed of New York

This deleveraging, or balance sheet adjustment, is putting a break on economic growth. As a result of this weak economic expansion, we have also witnessed a relatively slow recovery in unemployment (see Chart 31).

Chart 31: Historic unemployment

(Unemployment rate index, Q2 2008 = 100)



Source: IHS Global Insight

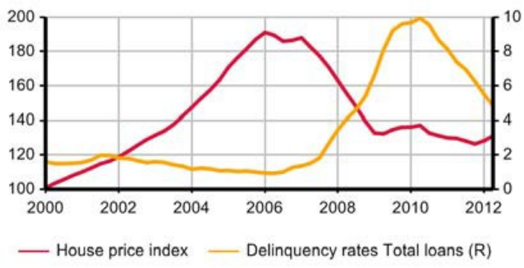
Unemployment increased from 4.5% in 2007 to almost 10% at the end of 2009. Since then it has come down to 8.1%. One important driver of weak consumer confidence and the tendency to reduce debt in the United States is related to the development in the housing market. A long period of strongly increasing house prices ended in 2006.

The sharp drop in house prices that followed implied a severe reduction in wealth for American households: delinquency rates increased sharply, causing trouble at banks. Since the previous Economic Outlook the housing market has continued to improve: house prices are currently slowly increasing on a broad scale throughout the country. Delinquency rates have at the same time been declining further (see Chart 32).

[18] See for example Reinhart and Rogoff (2009) 'This Time Is Different: Eight Centuries of Financial Folly'.

Chart 32: House prices and delinquency rate

(Case-Shiller index, delinquencies as percentage of total loans)



Source: IHS Global Insight; Case-Shiller

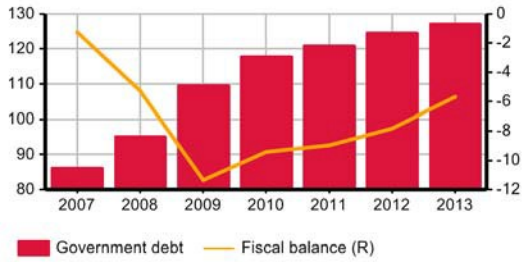
These developments suggest that the economic recovery, as reflected in current forecasts, stands on solid ground.

Government finances - a 'cliff hanger'

But there are large fundamental imbalances left to address, which on balance yields downside risk to the United States outlook. As a result of the financial crisis, the government budget deficit increased sharply and is expected to reach 7.8% in 2012 (see Chart 33). This large and persistent government deficit has led to a public debt level of 125% of GDP.

Chart 33: Public debt and budget balance, US

(Government debt and budget balance in percent of GDP)

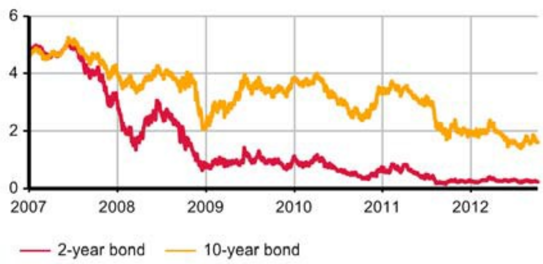


Source: IHS Global Insight

Political impasse, owing to the unwillingness of democrats and republicans to make concessions in debt negotiations, has so far prevented necessary budget consolidation from taking place. As a result, automatic tax increases and expenditure cuts will come into force at the end of the year: the so called 'fiscal cliff'. If these measures, contrary to the general expectation, are fully implemented it may reduce economic growth in 2013 significantly below current expectations.[19] The winner of the presidential election on 7 November is likely to distribute the implementation of the measures over time, reducing their negative impact.

Chart 34: Interest rate on goverment debt

(Government bond yield, secondary market spot price)



Source: IHS Global Insight

Despite its poor finances, the government is able to borrow at historically low rates (see Chart 34). This is because the United States treasury market is the largest in the world, is highly liquid, and the Federal Reserve has eased rates via its quantitative easing programmes. Treasury bonds are still seen as a safe place to invest: with the reduced risk appetite due to the Eurozone crisis, the United States is still regarded as a safe-haven for investors.

United Kingdom: crawling out of recession

Economic growth in the United Kingdom has steadily lost speed over the past six months. But there is a widespread consensus regarding a slow recovery in the period ahead: growth is currently expected to reach 1.3% in 2013, up from -0.3% in 2012. Businesses confidence in the United Kingdom remains low, reflecting uncertain conditions.

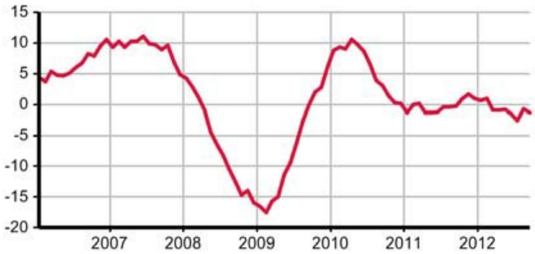
The sharp slowdown in construction continued to have a negative impact on the overall GDP figure in the second quarter: construction contributes around 8% to total GDP in the United Kingdom. Retail sales also continued to develop weakly in the same period. Slightly better weather conditions and some impetus from the Olympic games supported sales of food and beverages, but this was more than offset by poor performance within the non-food retail segment. Looking forward, it is anticipated that the level of private consumption will detract from the expected pick-up in aggregate demand as unemployment remains elevated at 8%.

[19] According to estimates by Roubini Global Economics the effect could be in the order of 4% (2012).

The economy in the United Kingdom contracted more sharply than most of its peers in 2009 and has developed below trend growth in past years. The financial sector landscape also experienced a period of large government intervention, which is likely to have effects on the market for credit in the medium term. Similar to developments in the United States, the period prior to the financial crisis was marked by strongly increasing house prices in the United Kingdom: house prices increased by more than 10% per annum on average until 2008 (see Chart 35).

Chart 35: House price inflation, UK

(Annual percentage change in national level indices)



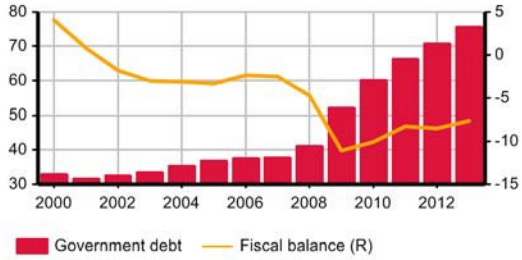
Source: IHS Global Insight

Real estate prices have lately shown evidence of softening again. The high property values are a source of concern, as monetary policy is currently extremely accommodative. The recovery is conditioned on the assumption of low interest rates, which otherwise will lead to higher debt service in the economy as a whole. Low short-term risk free rates have ensured that the cost of credit has stayed at tolerable levels, even if the risk premium remains elevated.

The financial crisis pushed up government debt from 38% of GDP in 2007 to 71% in 2012 (see Chart 36). Financial markets are however still willing to finance this debt at very low interest rates but the economy is held back by the austerity measures imposed by the government: the deficit is still 8.0% of GDP. Moreover, the economy is running a structural negative trade balance, adding to the already weak external position: 15% of exports go to the United States and almost half to the Eurozone (7% to Ireland).

Chart 36: Public debt and budget balance, UK

(Government debt and budget balance in percent of GDP)



Source: IHS Global Insight

The Nordic region: holding up

Despite close links to the Eurozone, economic growth in the Nordic countries has developed relatively robustly over the past two years. The growth momentum in 2013 is also expected to remain comparatively strong (see Table 4). Finland, while expected to perform better than the Eurozone average, is most exposed to the Eurozone crisis because it is a member of the monetary union. But the currency peg to the Euro has also prevented Denmark from conducting effective domestic monetary policy, making smooth adjustments to the deteriorating conditions more difficult.

Table 4: Real GDP growth - Nordics

	2009	2010	2011	2012f	2013f
Denmark	-5.8	1.3	0.8	0.5	1.2
Finland	-8.5	3.3	2.7	0.6	1.2
Norway	-1.6	1.8	2.5	3.5	2.8
Sweden	-5.0	5.3	4.0	1.3	1.8

Source: Consensus Forecasts (September 2012)

The Danish economy was one of the first to enter into recession in 2007 and has suffered greater output losses and more corporate failures than most of its peers. Real estate prices have dropped by 25% and the Danish banking sector is still suffering from significant stress, putting credit conditions under pressure. Denmark is expected to maintain a large trade surplus in both goods and services: while 40% of Danish exports go to EMU markets, Sweden accounts for 13% of the total. The current growth expectation of 1.2% in 2013 is implicitly conditional on stabilisation of the Danish market for real estate and a gradual improvement of imbalances in the Eurozone.

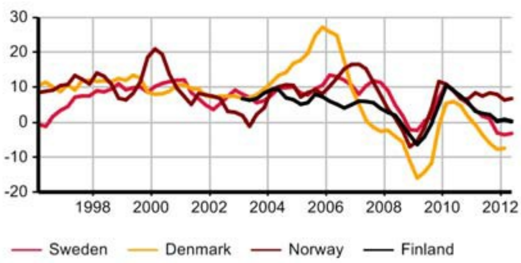
In the case of Sweden, the floating currency provided a cushion against the deep drop in external demand during the crisis. Since then the krona has appreciated strongly against the Euro. Being a small open economy, the 1.8% growth expectation for 2013 is dependent on a pick-up in global demand and a rebound in trade. 75% of total exports go to destinations within Europe and the Swedish economy is running a large structural trade surplus in both goods and services: 39% of Swedish exports are directed toward the Eurozone and 11% to Norway.

The oil-based Norwegian economy differs from its Nordic neighbours: the economy is expected to grow 3.5% this year: far stronger than the other Nordic countries. At 2.8% growth, the economic conditions in Norway are also expected to be significantly stronger than the regional average in 2013. The Norwegian economy is running a very large structural trade surplus through its oil exports. 91% of the Norwegian exports are destined for other OECD markets, of which the United Kingdom alone accounts for 21%. The current expectations of a continued high oil price over the forecast horizon support Norwegian growth going forward: in the long run, however, the high dependence on oil production presents a risk.

Although some important indicators point towards further deterioration in the Nordic region, there is more room for policy compared to other developed markets. Firstly, there is greater scope for government support as the fiscal position remains relatively robust and the general level of public indebtedness is low by international standards. Secondly, there is still additional room for monetary policy to manoeuvre.

Chart 37: House price inflation: The Nordics

(Annual percentage change in country level indices)



Source: IHS Global Insight

Despite this policy buffer, however, the risk to growth across the region is negatively biased. The housing markets across all the Nordic countries (with the exception of Norway) show tendencies of softening (see Chart 37). The boom and bust cycle in house prices has been strongest in Denmark: prices have since the peak come down by more than 20% and are still declining. Given the uncertain economic environment and recent decline in house prices, the risk of a correction also taking place in Finland and Sweden is not negligible.

Significant downside risk remains

In summary, the risk to the outlook across advanced economies is significantly tilted towards the downside. Growth prospects in all advanced countries remain vulnerable to adverse developments in the Eurozone and a further slowdown in growth across emerging economies. One major risk element discussed throughout this chapter is an accelerated slowdown in housing markets across advanced markets: house price developments appear soft not only in the Eurozone, the United Kingdom and the Nordic countries, but also in other advanced markets such as Hong Kong, Canada and Australia.[20] A moderation in prices in more countries could further reduce consumer expenditure and lower economic growth prospects across the globe.[21]

But again, the largest downside risk is still an escalation of the Eurozone crisis. Although several important political steps have been taken to address the problems in the Eurozone, as elaborated on in the previous chapter, the crisis is not yet under control. Through financial and trade linkages, governments and firms across the globe are vulnerable to adverse developments in the Eurozone. The risk of the crisis escalating again, eventually leading to an exit of one or more member states, is still present. The benchmark scenario, however, is that the Eurozone will remain intact, [22] although we acknowledge that the likelihood of a breakup is significant.

[20] The Economist (2012) 'Searching for solid ground', 18 August .

[21] Recessions that follow a boom in private debt are generally much deeper and last longer than recessions without a private bubble. See for example Alan Taylor (2012), 'The Great Leveraging', NBER, Working paper, August.

[22] A discussion of the arguments behind this position may be found in Atradius (2012), 'Sticking together – the future of the Eurozone', January.

Part 3

Prospects and risks in emerging economies

Emerging markets moderating

Economic growth in emerging markets has slowed down in the first half of this year, owing to lower demand for exports from advanced economies and reduced domestic demand. This moderation is expected to continue well into 2013. Compared to the previous Economic Outlook six months ago, the forecasts for economic growth have been revised downward for all emerging regions.

Economic growth is now expected to be lower for all emerging regions in 2012 than in 2011 and to pick up slightly in 2013 (see Table 5). Growth will, however, also remain below pre-crisis levels in 2013. The strongest growth in 2013 is still visible in Asia (6.7%), followed by Latin America (3.8%) and Emerging Europe (3.3%). In contrast to advanced economies, emerging markets have more room to stimulate their economies: expansionary fiscal and monetary policy is expected to support growth. The risks to the economic outlook across emerging markets are however biased towards the downside, given the weak global momentum and a variety of idiosyncratic structural and domestic issues.

Table 5: Real GDP growth - Regional aggregates

	2011	2012f	2013f
Asia (excluding Japan)	7.2	6.1	6.7
Eastern Europe	4.8	2.8	3.3
Latin America	4.2	2.9	3.8
Middle East & North Africa*	5.2	3.2	2.4

Source: Consensus Forecasts (September 2012)

Note: * IHS Global Insight (September 2012)

Asia: Still driving global growth

Although Asia remains the engine for global growth, we are observing a significant deceleration of growth in this region. Disappointing export performance but also domestic factors play a role. This means we expect decelerating growth this year, before picking up in 2013: growth in Asia (excluding Japan) is expected to increase from 6.1% this year to 6.7% in 2013. Despite the current moderation in economic activity, growth has remained at a fairly high level in most markets (see Table 6).

Table 6: Real GDP growth - Asia

	2009	2010	2011	2012f	2013f
China	9.2	10.4	9.2	7.7	8.1
Hong Kong	-2.6	7.0	5.0	1.8	3.8
India	8.0	8.5	6.5	5.9	6.9
Indonesia	4.6	6.1	6.5	6.1	6.1
Singapore	-1.0	14.8	4.9	2.2	3.8
Taiwan	-1.8	10.7	4.0	1.7	4.0

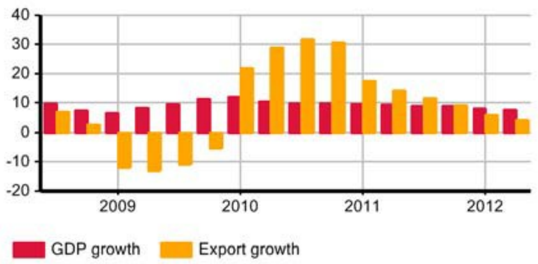
Source: Consensus Forecasts (September 2012)

China

Weakening external demand is affecting the Chinese economy. Economic growth is decelerating to 7.7% this year from 9.2% in 2011 as problems in the Eurozone and lagging economic growth in the United States are resulting in lower export growth (see Chart 38).

Chart 38: Economic growth and exports, China

(Annual growth rate in real GDP and real NIA exports, percent)



Source: IHS Global Insight

In parallel to the weakening export growth momentum, investment growth is moderating due to tight credit policies (implemented to prevent overheating). Measures aimed at cooling the property market have in particular aggravated the recent economic slowdown. Investments in fixed assets have decreased and, similar to exports, imports have declined sharply. Increasing disposable income, however, still support private consumption and in the second quarter of this year economic growth was 7.6%: the lowest rate of growth since the first quarter of 2009. Although the Chinese government revised its official growth target from 8.0% to 7.5%, indicating that the it is willing to tolerate lower economic growth, it will do everything to push growth up. Chinese authorities have already responded by relaxing both monetary and fiscal policy.

In June and July the central bank lowered the lending rate by 56 basis points to 6%. In addition, liquidity will increase due to reduced reserve requirements for banks and instructions to state controlled banks on credit issuance. Since the peak of November 2011, the reserve requirement has been reduced by 150 basis points. This more lax monetary policy is gradually filtering through the economy: credit growth has increased and, according to official government statistics, house prices rose in June. Taking into account the downward trend of consumer prices in past months the People's Bank of China has room to lower the interest rate further.[23]

The government has announced more fiscal stimulus to support the economy: increased spending on ports, roads and railways. The budget deficit will increase from 1.1% of GDP in 2011 to 2.4% of GDP this year due to the increase in government expenditure. Currently investments account for almost 50% of GDP and these measures will aggravate China's overdependence on investments for economic growth. Although the government also announced more spending on social services, more could be done to encourage the Chinese to increase consumption. A rebalancing of its economy towards more consumer-led growth is necessary as the strategy of more investments is unsustainable. The surge in investments led by state companies is also restraining the much needed development of the private sector.

In 2008 the Chinese authorities responded with an enormous stimulus package of USD 582 billion to combat the impact from the global downturn. This spending surge on investments through local authorities and the banking sector has created concerns about the financial position of local authorities and the quality of assets in the banking sector. Although the level of non-performing loans is still low, at 1%, it is expected to increase over the medium term. According to Fitch, the total banking system assets accounted for almost 240% of GDP at the end of 2011. Credit to the private sector (including state and state-linked companies) was 131% of GDP, which may be considered very high by emerging market standards.

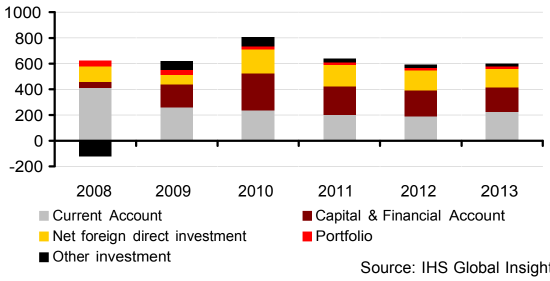
The surplus on the current account has decreased sharply since 2007: when the surplus was 10.8% of GDP. In 2012 a surplus of around 2% and a further decline are expected. The main reason for the declining surplus is the trade balance, with the growth in imports outpacing exports. Despite the prevailing administrative controls on foreign exchange transactions, the inflow of capital has increased in anticipation of a move towards more currency convertibility and increased openness of the economy.

The main component of the capital inflows is foreign direct investments (see Chart 39). In previous quarters the capital flows were more volatile: even reaching a deficit in the fourth quarter of 2011. This volatility in flows is reflecting a change in sentiment towards an appreciating renminbi and a less favourable economic outlook. These developments in the balance of payments are resulting in a slower accumulation of foreign reserves.

[23] However, food prices account for one third of the inflation index and higher food prices (as currently expected) will result in higher inflation, limiting the extent of monetary policy easing.

Chart 39: Balace of payments, China

(USD Billion)



Source: IHS Global Insight

The government is concerned about employment and economic growth, where a main priority is to prevent social unrest from brewing. The government has ample room to bolster economic growth but it seems to focus more on short term solutions, thereby putting aside issues related to a rebalancing of the economy (i.e. in the direction of increased consumption). The change of leadership that will take place at the Chinese Communist Party (CCP) Congress later this year is not expected to delay decision making.

Current president Hu Jintao and premier Wen Jiabao will step down and it is expected that they will be replaced respectively by Xi Jingping and Li Keqiang. Serious difficulties are not expected, but intensifying rivalries in the CCP give rise to speculations about challenges ahead. The political transition and system has been a black box for years and is finding difficulties in keeping up with the transformation of its economy.

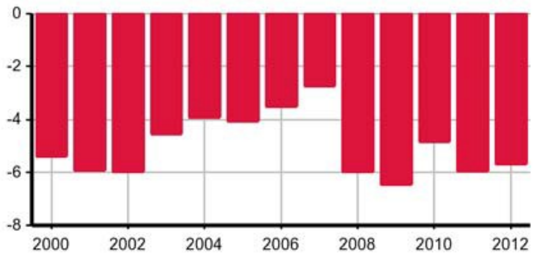
India

The Indian economy has cooled significantly: from 6.5% last year to an expected 5.9% in 2012. Although economic growth is projected to increase to 6.9% in 2013, this is far below the 9% regarded as the long-term potential growth rate. Inflation rose to 8.6% in the second quarter of 2011, forcing the Reserve Bank of India to continue its relatively hawkish stance (repo rate at 8%) in spite of the decelerating economic growth. The high interest rate weighs on investment and acts to further decelerate growth.

The reasons behind the current slowdown are partly structural: poor infrastructure, difficulties in collecting tax revenues, corruption, poor education, a dysfunctional legal system and an extremely inflexible labour market. Structural reforms are therefore urgently required, while political effectiveness leaves much to be desired. The current government consists of a five party – and divided - coalition, with its reputation undermined by a number of corruption scandals. The government is nevertheless expected to stay in power for its complete term, which expires in 2014: any reform efforts to address the structural weaknesses are therefore unlikely to take place.

Chart 40: Fiscal balance, India

(Fiscal balance as percentage of GDP)



Source: IHS Global Insight

Although India's macroeconomic fundamentals remain relatively healthy, the poor fiscal discipline is a concern (see Chart 40). India is running a large and structural budget deficit, partly due to sizeable subsidies on fuel, food and fertilizers. This deficit has led to increasing domestic government debt, adding to India's already high public debt-to-GDP ratio. The forthcoming elections in 2014 may even worsen the fiscal balance further.

The Indian government still enjoys a sovereign investment grade rating in the BBB- segment, but the outlook has recently turned negative. Deterioration in the fundamentals may result in a downgrade to speculative grade, decreasing India's access to international financial markets and raising interest rates. India is however able to finance its deficits domestically to a large extent: due to its relatively closed economy it is less vulnerable to the unfavourable economic developments in Europe.

Singapore

Singapore, as one of the most open economies in the world, is highly vulnerable to adverse global economic developments: the unfavourable economic developments in Europe and the moderating growth in China and the United States weighing on its growth prospects. Some of this lost growth momentum, however, is at least partly offset by growing trade in the South East Asian region. Economic growth is projected to be 2.2% this year, accelerating to 3.8% in 2013. Inflation in Singapore is high by developed nation standards and projected to be 4.4% in 2012, driven by higher prices for housing and transport.

Taiwan
Economic growth is decelerating due to declining export growth and investments: from 4.0% in 2011 to 1.7% this year. Taiwan's economy is highly export oriented, with China as its main trading partner: the main downside risk is a sharper than expected slowdown in the Chinese economy. The government has increased spending to cushion the impact of the economic slowdown. Investments have nevertheless been negatively impacted in the weak business climate, partly due to a removal of power subsidies. Growth in the Taiwanese economy is expected to accelerate to 4.0% in 2013.

Latin America: robust performance

More than anticipated in the previous Economic Outlook, the Latin American economy shows signs of less buoyant economic growth compared to earlier years. While the continent grew 4.3% in 2011, we expect economic growth to moderate to 2.9% this year before increasing to 3.8% in 2013. Considering the downward trend across advanced countries and some emerging markets like China, the risk to this growth scenario is biased to the downside.

Table 7: Real GDP growth - Latin America

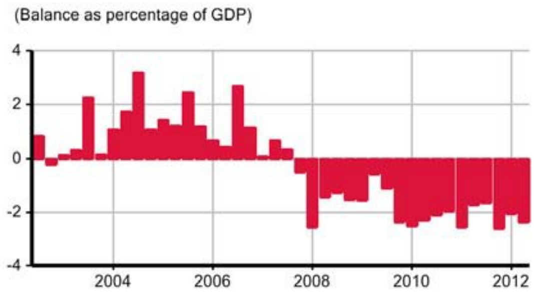
	2009	2010	2011	2012f	2013f
Argentina	0.9	9.2	8.9	1.6	3.2
Brazil	-0.3	7.5	2.7	1.6	4.0
Colombia	1.5	4.3	5.9	4.2	4.4
Chile	-1.7	5.2	6.0	4.9	4.5
Mexico	-6.1	5.5	3.9	3.9	3.5
Peru	0.9	8.8	6.9	5.8	5.9
Venezuela	-3.2	-1.5	4.2	5.0	1.9

Source: Consensus Forecasts (September 2012)

Brazil
In Brazil, the largest economy in Latin America, economic growth is currently undershooting population growth and is expected to be 1.6% in 2012 (see Table 7). In a period when domestic demand has, until recently, been curbed by more restrictive monetary policy measures, development of export growth has been sluggish. Brazilian exports are being hit by less brisk growth in Asia and the weaker economic conditions in the traditional advanced countries. The combination of weaker demand – domestic as well as foreign – largely explains the rather slow economic growth and small contraction of industrial output in Brazil in 2012. Economic growth is also impeded by some structural weaknesses in the domestic economy: high public sector debt (partly caused by Brazil's underfunded pension system), general bureaucracy and a complicated tax system. Planned reforms in these areas are progressing very slowly.

In the short term, domestic demand is expect to be fuelled by the lower interest rates and additional budgetary stimulus offered in past months. In 2013, growth is expected to rebound to 4.0% as private consumption and business investment recover. However, higher inflation is a negative side-effect of this recovery, forcing monetary policy to become more restrictive. In the medium term, investments will contribute to real economic activities and, hopefully, to extra foreign exchange revenues: with events such as the World Cup football championship and the Olympic Games, in infrastructure and the huge amounts to be invested in the pre-salt offshore oil fields.

Chart 41: Current account balance, Brazil



Source: IHS Global Insight

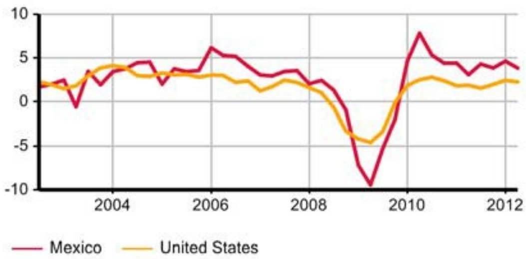
The current account deficit is persistently negative, as import growth is outpacing the growth in exports (see Chart 41). Brazil's external position, as reflected in its sovereign investment grade rating status, is expected to remain robust. Capital imports are financing the current account deficit, however, and the authorities are issuing warnings about short-term speculative capital inflows, which will serve to strengthen the currency. This remains a downside risk to the Brazilian outlook as a too strong Real will have a negative impact on exports, further burdening the external financial position.

Mexico
Economic growth in Mexico, which is highly dependent on the United States business cycle, is expected to be 3.9% this year: the same pace as in

2011 (see Chart 42). But as the United States is facing its 'fiscal cliff' at the beginning of next year (as mentioned in chapter 2) and further monetary easing is unlikely to provide more stimuli, economic growth is expected to moderate to 3.5% in 2013: at the same time that Mexican exports to the United States (accounting for roughly 75% of the total) will slow.

Chart 42: Real GDP growth

(Annual percentage change in quarterly GDP)



Source: IHS Global Insight

The economic policy of the new government, to be installed on 1 December 2012, will be of importance for economic conditions in the period ahead: the president-in-waiting Enrique Peña Nieto has promised reforms that are indispensable to maintain economic growth on the longer term. These pledges include reform areas such as the oil sector, tax system and the rigid labour market: Mexico's public sector income is very much dependent on oil sector revenues, which are dwindling.

Argentina
The performance of Latin America's third largest economy, Argentina, is just as erratic as its economic policy of the last few years. From peaking at 8.9% in 2011, economic growth is falling back to just 1.6% this year. Inflation continues to be one of the highest on the continent and the competitive position of Argentina's exports has been weakening for some time. These developments contribute to the peso exchange rate looking increasingly overvalued and pushing a rising trade deficit.

Due to the inability of the country to finance its current account deficit in the capital markets ever since the unilateral debt rescheduling of 2001, the economy is increasingly confronted with a shortage of foreign exchange. A variety of import restrictions and currency controls not only complicate foreign trade, but also contribute to payment delays by Argentine importers and to capital flight.

Venezuela and other Latin American markets
The economies of other middle to large sized Latin America countries are very dependent on global trade and commodity price developments. Economic growth will not be as high in 2012 as it was in the relatively favourable years of 2010 and 2011, but it will remain above the regional average of Chile, Colombia, Peru and Venezuela. The important elections in Venezuela in October may be of great importance for the economy in coming years: the question is whether president Chavez will be able to pursue the expensive socialist policy he has implemented for many years, or if a new head of state may turn the tide to a more positive development. Extra public sector spending ahead of the elections will fuel growth, reaching 5.0% this year before decelerating to 1.9% in 2013. Regardless of growth prospects, however, the payment record of Venezuela remains somewhat unreliable.

The MENA region: continued unrest

Political events in the Middle East (excluding Northern Africa) continue to overshadow economic developments in the region. The political developments since the uprising in Tunisia have taken a turn for the worse. The civil war in Syria is not only a human tragedy and devastating for the domestic economy but is also becoming a problem for the neighbouring countries: Turkey and Lebanon. Lebanon, with its already complicated population structure, is experiencing increasing strains and violent attacks between the several religious groups in the country. Until now this has not really impacted negatively on the economic position, but the trend is worrying.

Table 8: Real GDP growth - MENA

	2009	2010	2011	2012f	2013f
Egypt	4.7	5.1	1.8	1.9	2.8
Morocco	4.8	3.7	4.8	3.0	4.2
Qatar	8.6	16.7	14.8	4.5	4.3
Saudi Arabia	0.1	5.1	6.8	4.8	2.5
Tunisia	3.4	3.5	-1.5	2.5	3.1
UAE	-4.8	1.3	4.2	4.1	1.8

Source: IHS Global Insight (September 2012)

In the major oil producing countries, economic prospects have remained unchanged, depending as they do on the continued strong development of oil and gas prices. The political prospects are more a reason for concern: succession uncertainties and issues related to religious minorities remain unresolved. Moreover, the situation concerning Iran and Israel remains tense: an attack by Israel on the alleged nuclear sites in Iran continues to be possible – albeit remotely and this still cannot be ruled out, with far-reaching political and economic consequences for the region and the global economy.

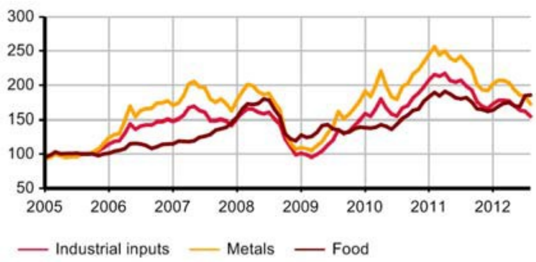
North Africa: unrest remains

The weak external climate, dominated by the problems in the Eurozone, is restricting a strong recovery in the North African countries. Except for Tunisia, countries in North Africa face lower economic growth this year than in 2011. For oil importers, rising fiscal and external pressures are leaving less room for the authorities to manoeuvre, especially taking into account the increase in expenditure last year to prevent rising social unrest.

Egypt, the largest market in the region, is muddling through and will need external financial aid to prevent a balance of payment crisis. An IMF stand-by programme and foreign aid from the Gulf States is expected. The ongoing tensions between President Mohammed Morsi and the military will deter foreign investors. It is possible that more countries in the region will need external financial aid. High oil and food prices will create pressure on budget balances (subsidies) and external accounts: food prices have increased significantly over past months (see Chart 43).

Chart 43: Global commodity prices

(Price indices by commodity class)



Source: IHS Global Insight

Higher food prices have a larger impact on price indices in emerging economies as the food component weighs heavier in the index.[24] The prices of other non-energy commodities, such as metals, have continued to ease throughout 2012.

Sub-Saharan Africa: potential with risks

Africa's economic growth is largely dependent on agriculture and mining. Furthermore, most African economies are quite detached from the global economy due to a lack of financial and trade integration. Average economic growth for the Sub-Saharan region is expected to reach 5.0% this year. Adverse weather conditions, a reduction in development aid flows and a further downward correction of commodity prices could jeopardize the relatively bright prospects.

Table 9: Real GDP growth - Sub-Saharan Africa

	2009	2010	2011	2012f	2013f
Ghana	4.0	8.0	14.4	8.4	7.7
Kenya	2.6	5.6	4.4	4.6	5.4
Nigeria	5.6	7.2	7.9	6.7	6.4
South Africa	-1.5	2.9	3.1	2.7	3.2

Source: IHS Global Insight (September 2012)

South Africa was shaken in August this year by a massacre at the Marikana mine, a platinum mine close to Rustenburg, where violent action taken by the police during a strike resulted in 42 dead and many wounded. Mining has always been the mainstay of the South African economy and generates 9.5% of total GDP. Although very unlikely, the discussion about nationalisation of the mines (initiated by the former head of the ANC Youth League Julius Malema) had diminished foreign investor confidence even before the incident.

The current unrest may spread to other mines and affect the South African economy. Demands for double digit wage increases and the risk of strikes may further discourage foreign investment in the mining sector. Low rates of investment, weak export performance, due to weakening demand from the Eurozone, and high unemployment weigh on economic growth. The government's efforts to offset these weaknesses by ongoing stimulus programmes is restricted by limited implementation capacity. Economic growth is therefore expected to moderate to 2.7% this year from 3.1% in 2011.

[24] Current estimates of the inflation effect of these higher food prices on the emerging economies would be about 0.6 percentage points, i.e. a relatively small and temporary impact. See IFF (2012), 'Global Economic Monitor', August, p. 6.

For 2013 the forecast growth figure is only slightly higher, at 3.2%. Inflation is stable at 5% and within the target range of the central bank: and not as severely influenced by the recent food price increases as in other African countries. The recent recovery of shale gas in the Karoo desert may in time alleviate the current energy shortage in the country, although exploration will not start before 2014.

The CEE region: Eurozone dependent

Economic performance in the Central and Eastern European (CEE) region is moderating rapidly. Economic growth has slowed from 4.8% in 2011 to an expected 2.8% this year. The unresolved debt crisis and subsequent recession in the Eurozone and the slowing economic growth in Asia are the main contributing factors to the loss of momentum in the region. An outright recession is being registered in Croatia, the Czech Republic, Hungary and Slovenia. The expected recovery in 2013, with growth increasing to 3.3%, largely rests on the assumption that the crisis in the Eurozone will be gradually resolved.

Table 10: Real GDP growth - CEE

	2009	2010	2011	2012f	2013f
Czech Rep.	-4.1	2.2	1.7	-0.8	1.0
Hungary	-6.7	1.2	1.6	-1.2	0.7
Poland	1.6	3.9	4.3	2.5	2.3
Romania	-7.1	-1.3	2.5	0.9	2.0
Russia	-7.8	4.0	4.3	3.8	3.7
Turkey	-4.8	9.0	8.5	2.9	4.3
Ukraine	-14.8	4.2	5.2	2.0	3.0

Source: Consensus Forecasts (September 2012)

Although we expect the Eurozone debt crisis to be solved in incremental steps – following the path laid out in the most recent policy proposals discussed earlier – we believe that the crisis will drag on for a considerable time. In the light of subsequent weak demand from the Eurozone, the prospects for many export oriented markets in Eastern Europe look less favourable. Economic growth in 2013 is expected to turn positive in most countries in the region, but the strength of the recovery remains modest. The larger economies such as Russia and Poland display their own dynamics, and are regarded as less dependent on the economic performance in the Eurozone.

Economic growth in Poland is expected to reach 2.5% in 2012, down from 4.3% in 2011. The three Baltic States are maintaining their growth momentum this year, with growth rates of 2.2% in Estonia and 3.9% in Latvia: a confirmation of their recovery from the deep recession of 2008/09. In Romania, political events are giving rise to worries, for economic reasons too: there is growing uncertainty about future policy in this market. The latest developments complicate relations with the EU and may also contribute to more complex connections with the international financial world, including the IMF. The Romanian currency (Leu) recently reached a low against the Euro, confirming the impact of these political strains.

Overall, the lack of solidity of democratic rule in Eastern Europe remains the largest risk factor to future economic developments. In addition to the latest political developments in Romania, we may point to recent developments in Russia and the Ukraine, as well as the apparent lack of democracy in Belarus.

Russia

Russia, the largest and most politically influential country in the region, has delivered stable economic growth over recent years: although moderating slightly, from 4.3% in 2011 to 3.8% this year. But the country remains completely dependent on energy price developments, in both oil and gas: and attempts by Russia to diversify economically have so far failed.

Last year's intense political uncertainty disappeared after Putin, with an overwhelming majority, was elected as president in March this year. Former president Medvedev has taken up his earlier role of prime minister and the duo is expected to stay in power until 2014. Both the presidential election and the parliamentary elections (won by United Russia) were allegedly fraught with irregularities. Although it is unlikely that the results were materially affected, the election process has triggered a protest movement. Although that movement is relatively small in number and limited to the main cities, the government feels uneasy about it and has rushed a number of laws through Parliament to repress it.

The political configuration is relevant as Russia is in urgent need of economic reforms. Although economic growth has been decent over recent years, Russia has clearly missed opportunities: the quadrupled oil price should have allowed for even higher growth. The corruption-ridden investment climate needs attention, as do the production apparatus, the infrastructure and structural issues related to the ageing population.

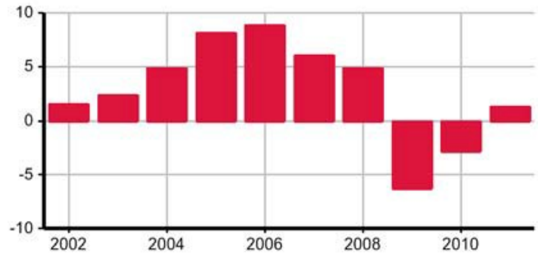
The snag is that this should be achieved within the boundaries of the current state capitalism, implying considerable involvement by the government in the economic process. And it is this involvement that has proved counterproductive to the necessary changes, as it would put the vested interests of the closely politically-tied business elite under pressure. WTO membership is however a bright spot: this may in time contribute to the required modernisation of Russia, as Russian firms gain access to the world market and acquire an injection of efficiency and innovation.[25]

As mentioned in the April Economic Outlook, Russia has already fully recovered from the 2009 crisis. It is currently growing at an annual rate of close to 4% and is expected to continue to do so over the medium term. While limited improvements regarding reform efforts and the investment climate can be expected, the oil price remains high, at around US$ 115 per barrel. Unemployment is reasonably low, at 6%, and domestic demand is currently boosting growth, with retail sales increasing 7.2% in the first half of the year. The Russian PMI increased to 52 in July, indicating expansion in contrast to most other markets. Moreover, Russia is running a significant trade surplus, reaching US$ 110 billion in the first half of 2012 (compared to US$ 99 billion in 2011).

Public finances have also recovered from the crisis: in 2011 there was a budget surplus of 0.8% to GDP, which has remained positive in 2012 (see Chart 44). Again, oil and gas revenues dominate this performance: the budget-neutral oil price currently stands at US$ 116 per barrel. Excluding oil, however, the country is running a large deficit: in the order of 11.3% in 2012. This non-oil deficit is to be reduced to 5% by 2015, with the help of a new fiscal rule that links government expenditure to the average oil price. It would also allow the filling of the Reserve Fund and National Wealth Fund when breaching oil price threshold levels. Alhough a step in the right direction, this is insufficient to generate strong enough resilience to oil price shocks [26]

Chart 44: Fiscal balance, Russia

(Fiscal balance as percentage of GDP)



Source: IHS Global Insight

Inflation is expected to reach 6.6% in 2012 and slow further to 5.9% in 2013: monetary policy has tightened to address the situation but more needs to be done to anchor inflation expectations in the 3% to 5% range. The Russian Central Bank has also accepted its share of responsibility in improving the Russia's resilience to shocks by allowing the exchange rate to fluctuate within a band of 8% above and below the central US$ target rate. The real effective exchange rate depreciated due to lower inflation and currency depreciation in the first half of 2012, thereby improving Russia's competitive position. This will help exports of non-oil products, and alleviate the impact of the 'Dutch Disease' symptoms (i.e. the negative impact of large oil reserves, giving rise to a sharp inflow of foreign currency leading to currency appreciation, making the country's other exports less competitive) that characterise Russian exports.

Despite this, oil revenues will continue to dominate exports and the balance of payments generally. The current account surplus in the first half of 2012 leapt up to US$ 58.4 billion (US$ 52.7 billion a year earlier). This is mirrored by significant capital outflow: in 2011 peaking at US$ 80 billion (compared to US$ 38 billion in 2010). That very high level also reflects the political uncertainty of late 2011l. However, significant outflows will remain in the near future, barring a considerable change in the Russian investment climate.

[25] There is some awareness at government level of the need to improve on these issues. A special economic zone has been created to allow predefined sectors (ICT, biomedical, energy, space and nuclear) to develop into a Russian version of Silicon Valley. See The Economist, July 14, 2012, p. 51.

[26] The budget break-even oil price is only marginally reduced to US$ 105 in 2015. See IMF (2012), Country Report, August.

Part 4

Implications for credit

An uncertain environment

The current scenario for economic performance in 2012 and 2013 implies a challenging environment for businesses. And there are still significant downside risks to this already stretched scenario, especially for Europe. A number of factors discussed throughout this report contribute to future upward pressure on business failures. Given the current expectations of a weak and protracted Eurozone recovery in 2013, demand conditions will remain surpressed over the medium term. Although conditions are expected to stabilise and even improve somewhat in 2013, the cyclical position remains poor. Moreover, we still anticipate tight lending conditions going into 2013. Financing conditions for firms are already much tighter than during a normal cyclical downturn and the stricter rules for capital requirements are contributing to additional tightening.

Global overview of recent developments

Measured on a global scale, the aggregate number of business failures actually continued to decrease somewhat in the first half of 2012, despite the global slowdown in economic activity. Across advanced markets the number of insolvencies decreased further in North America and the Nordic region. The same trend also applies to the Eurozone as an aggregate, even if the periphery experienced continued deterioration. Similarly, the insolvency environment in Japan and Singapore remained relatively benign with the number of business failures decreasing.

In contrast to the surprisingly stable developments in advanced markets, insolvencies instead increased across emerging economies in the first half of 2012.[27] Business failures increased in emerging Europe due to the uncertain and turbulent situation in the Eurozone, with Poland and Hungary experiencing deterioration in their overall insolvency environment. In line with slowing economic conditions, we also witnessed a slight increase in insolvencies in emerging Asia at the beginning of the year. In Latin America, however, Brazil saw a drop in business failures.

Upward pressure on business failures

Turning to the second half of this year, the current economic outlook is consistent with increasing insolvency risk across continents in 2012. We expect insolvencies to increase across a number of major markets this year before stabilising in 2013. The default outlook for the Eurozone is mixed, reflecting the large and growing differences in economic performance between the core and the periphery. Since the insolvency environment across advanced economies is already relatively poor, the degree of deterioration is likely to be moderate. Half of the countries included in our insolvency framework are currently classified as 'high' insolvency markets (for a brief overview of the methodology, see Box 2).

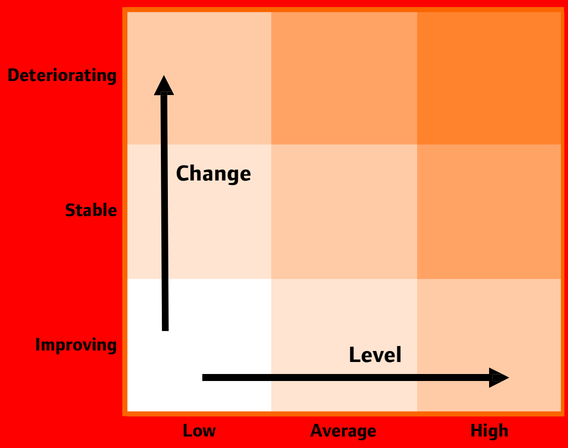
[27] Dun & Bradstreet, 'Special Report', June 2012.

Box 2: Insolvency assessments

Based on the current Economic Outlook we produce insolvency forecasts for a number of countries. Since we perceive insolvency growth to be a more informative indicator of aggregate business failure conditions in developed markets, we focus on a selection of large insurance markets. The main reason for this is that we perceive the quality of official statistics and comparability in terms of insolvency legislation to be sufficiently high.

Two dimensions are important when describing insolvency conditions: the expected change in the number of insolvent firms over the coming period (i.e. the insolvency growth forecast) and the current level of defaults (i.e. the proportion of defaulting firms among the total number of enterprises). The level gives information on what type of market a particular country represents in terms of default dynamics and indicates the general likelihood of firms going bankrupt. The insolvency growth forecast reflects our expectation of how the default level will develop (i.e. showing whether the level of risk is likely to stay the same or change).

Figure 1: Risk Matrix



Presented in a matrix, the countries included in our insolvency assessment framework are classified according to their level and expected change (see Figure 1). The vertical axis depicts the expected change in the default level in 2012 (i.e. whether the insolvency growth forecast is positive, neutral or negative). As such, all countries expected to see deterioration in their insolvency environment this year are to be found in the top row.

The horizontal axis depicts the absolute level of defaults at present (i.e. whether the frequency of defaults in a country is assessed as low, average or high). As such, all countries that are perceived as markets characterised with comparatively high default frequencies are to be found in the right column. This classification provides a high-level overview of underwriting risks across our most important markets for short-term credit insurance.

Our insolvency assessments are based on analysis of historical insolvency statistics for each market. We use these insolvency statistics to produce a corporate failure growth proxy, assuming that the observed insolvency counts are proportional to the total number of (partly unobserved) business failures. The default level assessment is an indication of the relative frequency of insolvencies within a country over time and has been designed to be comparable across countries.

On average, insolvency growth dynamics tend to respond more or less instantaneously to changing macroeconomic conditions. Although the empirical relationship varies in strength, insolvency growth displays a certain degree of co-movement with the business cycle across most markets: when economic growth in a country accelerates above its trend, this is usually associated with falling insolvency numbers; and conversely, when economic growth slows, it is usually accompanied by rising insolvency numbers.

The level, however, influences the insolvency growth dynamics. A country that is already experiencing an elevated insolvency level is less likely to respond as strongly to cyclical movements as a market that shows a low insolvency level. As our ultimate aim is to link current expectations of macroeconomic performance in the year ahead to implied insolvency movements, we use up-to-date country-specific forecasts of macroeconomic performance to estimate an insolvency response. Based on country-specific information on the trend in actual insolvency developments, this mechanical response is adjusted for expert judgement in a second step. Structural conditions and other country-specific features are manually taken into account when determining the insolvency forecasts.

The weak outlook for economic activity in 2012 and 2013 is broadly consistent with increasing insolvencies in 2012 (see Table 11).

Table 11: Insolvency forecasts (in %)

	2010	2011	2012f	2013f
Australia	-1.3	6.3	5.0	0.0
Austria	-7.6	-8.0	5.0	0.0
Belgium	1.7	6.7	5.0	0.0
Canada	-20.0	-10.5	-5.0	0.0
Denmark	13.2	-15.4	0.0	-10.0
Finland	-12.5	2.8	5.0	-5.0
France	-3.0	-5.2	0.0	0.0
Germany	-2.1	-5.9	0.0	0.0
Greece	30.0	30.0	25.0	5.0
Ireland	10.0	-5.0	0.0	-10.0
Italy	20.8	16.9	15.0	5.0
Japan	-13.9	-4.4	-5.0	0.0
Luxembourg	32.9	4.0	0.0	-10.0
Netherlands	-9.6	-1.0	15.0	-5.0
New Zealand	-5.8	-10.8	0.0	0.0
Norway	-11.5	-1.8	-10.0	0.0
Portugal	15.6	17.1	5.0	0.0
Spain	2.2	14.3	20.0	0.0
Sweden	-4.4	-4.2	5.0	0.0
Switzerland	19.9	6.5	0.0	-5.0
United Kingdom	-15.9	5.1	0.0	-10.0
United States	-7.4	-15.2	-10.0	-5.0

Source: National bureaus, Atradius Economic Research

This suggests that underwriting risks across our most important markets for short-term credit insurance are increasing this year, while stabilising at a high level in 2013.

Increasing frequency risk

The top-right field of Figure 2 holds the countries where insolvencies are at a high level and expected to climb further. In the Southern Eurozone, economic growth is expected to remain negative in 2013 and this is reflected in the insolvency forecasts at the country level (see Table 11): all four countries are situated in the top right corner. These markets have experienced a significant deterioration in their default environment since the previous downturn and, given the protracted recessionary conditions, the insolvency situation is expected to deteriorate further.

Figure 2: Insolvency risk in 2012

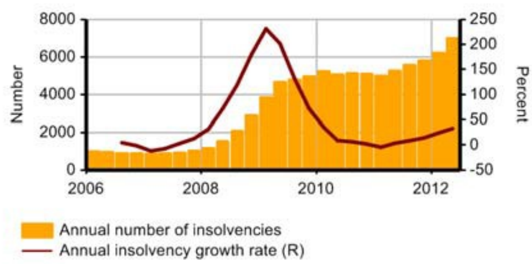
	Low	Average	High
Deteriorating	Sweden	Australia Austria Finland Netherlands	Belgium, Greece Italy, Portugal Spain
Stable	New Zealand	Germany Switzerland	Denmark, France Ireland, Luxembourg, United Kingdom
Improving	Canada	Japan Norway	United States

Greece, struggling to meet the targets under the most recently negotiated support package, is expected to register a fifth year of double-digit insolvency growth as austerity measures bite. The sharp drop in demand in combination with very tight conditions for trade finance make the situation for businesses very difficult. The elevated level of political risk and uncertainty over future Eurozone membership also affects the other vulnerable countries. Portugal, the third Eurozone country to receive emergency funding in 2011, is facing comparable difficulties to those of Greece and is likewise expected to experience deterioration in its insolvency environment.

Insolvencies in Italy and Spain are expected to increase in 2012 by another 15% and 20%, respectively (see Table 11). High average lending rates for corporations together with high debt gearing levels imply increased vulnerability in terms of a firm's survival.

Chart 45: Insolvency trends, Spain

(1-year trailing sum of insolvency counts based on quarterly data)



Source: IHS Global Insight; Statistics Spain

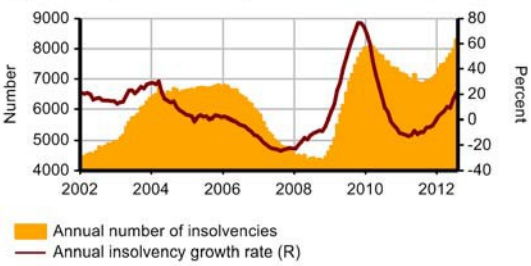
Multiple years of very adverse insolvency dynamics have created a situation with unusually high and sticky default rates across this cluster of countries. In general, the frequency of defaults is more than twice as high as it was in 2007, before the crisis. In the case of Spain, that frequency has increased more than four-fold (see Chart 45). Against this background, the projection is indicative of a very poor insolvency environment in the short to medium term. Although Belgium, traditionally a market characterised by a relatively high structural default rate, also belongs to this high-risk cluster, the projected 5% insolvency increase is consistent with more moderate developments.

The top-left field of Figure 2 contains countries where insolvencies are at a relatively low level, but are expected to climb in the period ahead. Sweden, whose default rate has remained comparatively low despite a significant increase in insolvencies between 2008 and 2009, is the only country currently in this category. In line with the sharp moderation in economic activity, insolvency growth is expected to be in the order of 5% in 2012.

For Finland, belonging to the group of average level default markets, a similar business cycle position also translates into a slight increase in insolvencies in 2012. The same is true of Austria, where we expect to see a slight increase in insolvencies due to the difficult economic conditions in neighbouring European countries. The Netherlands, which suffered a sharp insolvency shock in response to the economic contraction in 2009, is again expected to contract this year (see Chart 46).

Chart 46: Insolvency trends, The Netherlands

(1-year trailing sum of insolvency counts based on monthly data)



Source: IHS Global Insight; CBS

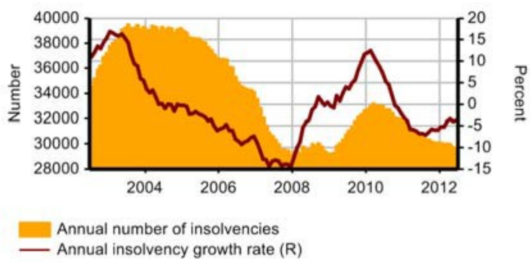
With the recessionary conditions, insolvency growth is expected to increase yet another 15% (see Table 11). The number of insolvencies in the Netherlands increased sharply in the first half of the year and this trend, coupled with weak economic prospects, suggests that the record level of 8,000 insolvencies a year, mostly related to the construction industry, may be breached in 2012. Although there has been a considerable increase in the default level since the previous crisis, the Netherlands still represents an average default market.

Stabilising conditions

A third of all countries in the insolvency assessment framework are expected to see roughly unchanged default conditions this year, i.e. 0% insolvency growth for the full year. Beginning with the low default markets displaying stable insolvency conditions, New Zealand's business cycle position translates into a stabilisation of insolvencies in 2012. The same is true for Switzerland, which is categorised as an average level default markets. German insolvencies developed in a stable fashion throughout the previous crisis and the default environment has remained relatively benign since then (see Chart 47). Despite the sharp moderation in economic growth, the insolvency situation is expected to remain roughly unchanged in 2012 compared to last year.

Chart 47: Insolvency trends, Germany

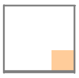
(1-year trailing sum of insolvency counts based on quarterly data)



Source: IHS Global Insight; Statistics Germany

There are also a number of countries where default rates are perceived as high, but which are expected to remain stable despite their economic slowdown and relatively poor performance from a pure business cycle perspective. France, Ireland, Luxembourg and the United Kingdom display these characteristics. Denmark belongs to this group as well, in stark contrast to its Nordic neighbours. The lack of underlying strength in the Danish economy has put a halt to the gradual improvement in the insolvency environment seen in 2011, delaying the adjustment back towards long-term default levels.

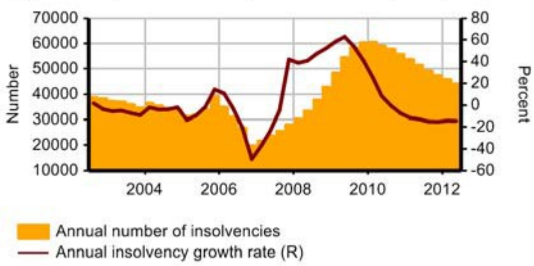
Room for improvement



The bottom-right field of Figure 2 displays countries where insolvencies are at a high level but expected to decrease in 2012. The level of insolvencies in the United States has been gradually reducing since 2010, but may still be regarded as relatively high by historical standards (see Chart 48). Insolvencies continued to decrease in the first half of this year and, in light of the relatively favourable business cycle performance ahead, they are expected to decrease by 10% in 2012.

Chart 48: Insolvency trends, United States

(1-year trailing sum of insolvency counts based on quarterly data)



Source: IHS Global Insight

Countries located in the neighbouring fields that signal even more favourable risk conditions. The bottom-left field of the risk matrix shows countries where default conditions in terms of frequency risk are most benign (i.e. those that display a low level of insolvencies and are likely to see further improvement). Canada belongs to this category and, as economic conditions are expected to develop in line with potential, we foresee a slight reduction in 2012.

Moving to markets with average default levels we find Norway, which has performed better than its Nordic neighbours in terms of economic growth. The number of Norwegian insolvencies is expected to decrease by as much as 10% in 2012. Japan is also assessed to be an average default market and there we foresee a small improvement in 2012 in line with the expected pick-up in Japanese economic activity.

Altogether, insolvency dynamics differ substantially between our major markets. But the aggregate risk perception is definitely on the high side: while half of the 22 countries in the insolvency framework are labelled 'high' insolvency markets, 80% are projected to see further deterioration or a mere stabilisation in the near term. Moreover, given the uniformly poor growth momentum in the period ahead and the significant risks to the main global scenario, there is also significant downside risk to the insolvency growth outlook for most countries reviewed in this chapter.

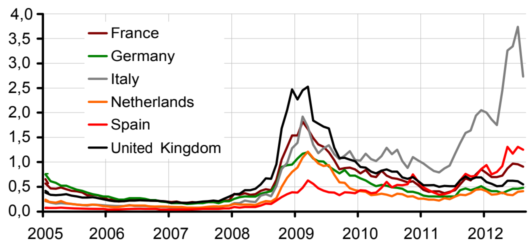
High credit risk also across large firms

Consistent with the deteriorating insolvency outlook outlined above, the general market perception of risk has remained elevated since the second half of 2011. The trend of general deterioration in credit quality has continued in the past six months, as reflected in the actions of rating agencies. Negative rating actions are still outstripping positive ones both in Western Europe and in North America. European credit ratings, however, show signs of much more rapid deterioration: the regional upgrade to downgrade ratio in the S&P universe is less than 0.3 for the first three quarters of 2012.

We have also witnessed a reversal in the previously stabilising trend in default expectations across large firms in Europe. Expected Default Frequencies (EDFs) have broadly increased since the beginning of the year across European countries (see Chart 49).[28]

Chart 49: Median EDF - Europe

(Default risk 12 months ahead, percent)



Source: Moody's KMV

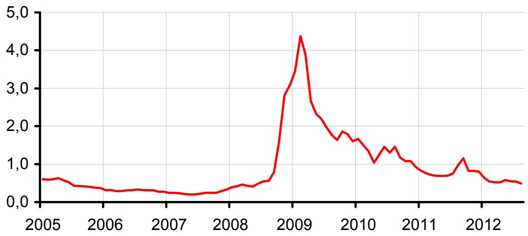
The worsening trend across Eurozone markets directly affected by the Eurozone debt crisis has been particularly strong. Plunging equity valuations combined with high debt levels on balance sheets have ensured that half of the listed corporate universe in Greece currently runs an estimated

[28] The Expected Default Frequency (EDF) tracks default risk among stock listed companies. Combining balance sheet and stock market information for a particular firm yields a 1-year default forecast. The median EDF, as referred to in the charts below, represents the 50th percentile in the total country aggregate of firms.

default risk in excess of a staggering 14%. The corresponding figure for Portugal was 6% in August, and in Italy the median EDF is currently around 3%. In the United States, consistent with better economic performance, the EDFs have developed in a more stable fashion in recent months: the median EDF has fallen further to 0.5%, implying a level similar to that which prevailed in the first quarter of 2008 (see Chart 50).

Chart 50: Median EDF - United States

(Default risk 12 months ahead, percent)

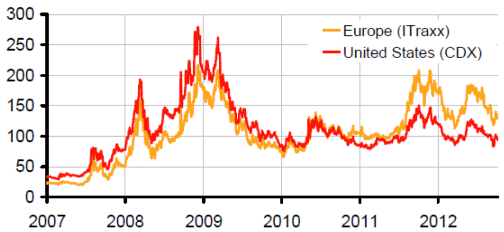


Source: Moody's KMV

Credit Default Swap (CDS) spreads, a useful external benchmark for the price of credit risk, have also shown a declining trend since June: the European spread has fallen from 180 to around 125 basis points (see Chart 51).

Chart 51: The price of credit risk

(Credit Default Swap spreads, 5-year segement, basis points)



Source: Bloomberg

On balance, however, this is still consistent with the broad-based pattern of elevated default risk discussed throughout this report. Default risk as reflected in the spread has remained high since the second half of 2011 and, compared to the period before 2007, the deterioration is striking: a five-fold increase in risk. As such, the corporate universe carries significantly higher default risk than a couple of years ago.

Firms under pressure from sovereign risk

The Eurozone crisis has continued to reshape the global risk landscape in terms of sovereign capacity. While only four Eurozone sovereign states still carry AAA ratings with Standard and Poor's, as many as three Eurozone members are firmly situated in speculative grade.[29] Since the onset of the crisis, five out of the 17 Eurozone members have requested or signalled need for financial support: Cyprus, Greece, Ireland, Portugal and Spain.

The member states are currently distributed across the whole credit quality spectrum, ranging from 'AAA, minimal risk' to 'CCC, very high risk'. Spain was downgraded two notches on the 10th of October, from BBB+ to BBB-, with a maintained negative outlook.

The outlook for future rating revisions across the whole Eurozone is predominantly negative, suggesting that conditions are expected to deteriorate further. The perceived differences in sovereign strength as reflected in the rating standings mirrors the large difference in performance across member states.

The increase in sovereign risk is reflected in higher interest rates on government bonds. Given the role of the government bonds as benchmark rates, this has an impact on corporate lending rates. Firms in vulnerable countries are facing steep interest rates to (re)finance their operations, making it more difficult to run profitable and solvent businesses. A resolution of the Eurozone crisis is therefore not only in the interest of sovereign states but also of utmost importance to individual businesses operating within the region.

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[29] The sovereign rating trends across the other two major rating agencies (Moody's and Fitch) are similar to Standard & Poor's.

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Appendix: Forecast tables

Table A1: Macroeconomic headline figures - Developed markets

	GDP growth (%)			Inflation (%)			Budget balance (% of GDP)			Current account (% of GDP)			Export growth (%)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Australia	2.1	3.4	2.0	3.4	1.7	2.8	-3.2	-2.7	-0.5	-2.3	-4.2	-5.3	-1.3	5.1	3.2
Austria	2.7	0.8	0.9	3.3	2.3	2.0	-2.6	-2.6	-1.9	1.9	2.0	2.1	7.3	1.3	1.2
Belgium	1.8	-0.3	-0.2	3.5	2.7	1.9	-3.9	-3.9	-4.1	-0.8	-0.9	-1.3	5.5	0.2	2.6
Canada	2.4	2.0	2.0	2.9	2.0	1.8	-4.4	-2.8	-1.7	-2.8	-2.7	-2.3	4.6	5.5	6.1
Denmark	0.8	-0.2	0.3	2.8	2.2	1.8	-1.8	-2.2	-1.9	6.5	5.6	5.3	7.0	1.7	2.3
Finland	2.7	0.2	1.4	3.4	2.8	2.5	-0.9	-1.8	-0.7	-1.2	-1.5	-0.9	2.0	-1.1	3.8
France	1.7	0.0	-0.2	2.1	2.0	1.7	-5.2	-4.6	-3.9	-2.0	-2.0	-1.7	5.5	2.4	0.8
Germany	3.1	0.9	0.7	2.3	1.9	1.6	-1.0	-0.2	-0.4	5.7	6.0	5.6	7.9	3.6	2.1
Greece	-6.9	-6.1	-7.1	3.3	1.3	7.8	-9.2	-7.7	-3.9	-9.3	-5.3	-0.5	-0.3	-1.4	-1.0
Ireland	1.4	0.5	1.2	2.6	1.8	1.6	-13.1	-8.5	-7.2	1.1	1.6	2.3	5.0	4.7	2.0
Italy	0.5	-2.3	-1.2	2.8	3.2	1.8	-3.9	-2.8	-1.6	-3.3	-1.2	-0.8	6.3	0.7	-0.3
Japan	-0.7	2.4	1.3	-0.3	0.0	-0.7	-11.1	-10.4	-8.7	2.0	1.4	1.7	-0.1	3.3	7.4
Luxembourg	1.6	0.8	1.1	3.4	2.5	2.0	-0.6	-0.9	-0.8	7.7	4.5	5.2	1.7	-2.4	1.9
Netherlands	1.1	-0.6	0.3	2.3	2.2	2.1	-4.6	-4.6	-4.4	9.1	6.9	6.4	3.9	1.7	2.0
New Zealand	0.3	2.2	2.7	4.0	1.4	2.4	-6.4	-4.8	-4.6	-4.3	-5.7	-6.1	2.0	1.7	3.0
Norway	1.5	3.7	1.4	1.3	0.6	1.5	13.7	14.0	12.4	14.5	14.9	14.1	-1.4	2.8	0.9
Portugal	-1.6	-3.0	-1.9	3.7	2.7	1.3	-4.2	-4.5	-3.7	-6.4	-3.3	-2.7	7.6	4.3	0.8
Spain	0.4	-1.4	-1.9	3.2	2.4	1.9	-8.9	-6.5	-6.0	-3.5	-2.5	-2.1	7.6	1.6	0.5
Sweden	4.0	1.9	1.4	2.6	1.2	1.7	0.3	-0.3	0.0	7.0	6.8	6.9	7.3	1.8	1.5
Switzerland	1.9	0.9	1.0	0.2	-0.6	0.4	0.8	0.5	0.0	14.3	13.6	13.0	3.8	-0.6	2.1
United Kingdom	0.8	-0.3	0.9	4.5	2.7	2.0	-8.3	-8.5	-7.6	-1.9	-2.3	-1.9	4.4	-0.1	1.9
United States	1.8	2.2	1.8	3.1	2.0	1.4	-9.0	-7.8	-5.7	-3.1	-3.2	-2.7	6.7	4.0	3.7
Eurozone	1.5	-0.5	-0.3	2.6	2.3	1.9	-4.1	-3.2	-2.7	0.5	1.1	1.3	6.3	2.2	1.5
European Union	1.6	-0.3	0.1	3.0	2.4	2.0	-4.4	-3.8	-3.3	0.2	0.6	0.7	6.4	2.0	1.6

Source: IHS Global Insight

Note: IHS Global Insight forecasts for 2012 and 2013 (Data edge 2012 Q2). Date of forecast, 15 September 2012. These forecast values are provided as an indication of direction, representative of one vendor's view only. The values in the table may therefore differ from the Consensus values quoted throughout the report.

Table A2: Macroeconomic indicators - Developed markets

	Private cons. (%)			Fixed inv. (%)			Gov. cons. (%)			Retail sales (%)			Industrial prod. (%)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Australia	3.3	3.6	2.0	7.1	7.6	4.7	2.5	2.2	-1.0	-0.9	2.0	1.6	-1.2	0.8	1.1
Austria	1.0	0.6	1.1	6.0	1.8	1.2	1.3	2.5	1.1	-0.8	-0.5	-0.2	6.0	0.9	2.0
Belgium	0.2	0.0	0.9	4.1	0.7	1.8	0.8	0.6	1.0	-1.5	-0.8	-0.7	4.0	-2.4	-0.3
Canada	2.4	1.7	2.0	6.6	4.7	4.5	0.8	0.2	2.2	1.1	1.1	1.8	3.5	2.3	4.5
Denmark	-0.8	0.1	0.1	0.2	1.9	0.0	-1.3	-0.2	0.9	-2.6	-1.5	-0.5	1.9	-1.7	0.9
Finland	2.4	0.9	1.3	6.8	-0.7	3.4	0.4	0.2	0.8	-1.2	-1.2	-0.3	1.3	-0.6	1.9
France	0.3	-0.1	0.1	3.5	0.4	-1.2	0.2	1.1	0.4	0.6	-0.9	-0.7	2.4	-2.6	-2.2
Germany	1.7	0.9	1.1	6.4	-1.4	0.3	1.0	1.1	1.1	0.4	0.1	0.3	8.0	0.0	3.1
Greece	-7.1	-7.4	-7.8	-20.7	-15.1	-10.9	-9.1	-4.5	-9.6	-10.2	-8.7	-10.6	-8.4	-3.0	-10.5
Ireland	-2.4	-1.6	0.1	-12.8	-0.3	-0.3	-4.3	-1.8	-0.8	-3.4	-3.0	-0.9	0.1	1.9	1.3
Italy	0.2	-3.3	-1.7	-1.2	-8.6	-3.1	-0.9	-1.2	-2.3	-3.7	-4.6	-3.5	0.2	-6.4	-2.4
Japan	0.1	2.5	0.2	0.9	4.0	4.4	2.0	1.5	-2.8	-0.9	2.7	0.3	-2.3	1.2	2.2
Luxembourg	1.8	1.0	1.7	7.7	-1.4	0.6	2.5	4.0	2.0	7.1	1.9	0.8	-2.5	-3.0	3.9
Netherlands	-1.0	-0.9	1.0	5.7	-3.1	1.6	0.1	1.2	1.2	-1.3	-2.3	-0.6	-0.6	-0.4	-1.2
New Zealand	1.4	2.5	3.0	1.7	4.6	11.7	0.1	0.1	-0.3	1.3	2.4	1.2	1.5	3.8	1.9
Norway	2.4	3.3	2.2	6.3	6.3	2.2	1.5	1.8	2.7	1.3	3.1	0.6	-4.3	4.0	1.6
Portugal	-4.0	-5.4	-1.2	-11.3	-14.5	-7.0	-3.8	-2.5	-2.1	-8.9	-6.8	-2.5	-1.9	-3.4	-1.6
Spain	-1.0	-1.9	-1.8	-5.3	-9.2	-4.2	-0.5	-3.2	-2.8	-4.8	-5.1	-3.7	-1.4	-5.2	-2.5
Sweden	2.0	1.8	1.4	7.0	4.4	2.8	2.0	1.2	1.6	-1.7	0.6	0.0	5.7	0.8	1.6
Switzerland	1.2	2.2	1.2	4.0	0.3	1.1	2.0	2.1	1.2	-1.5	1.9	1.3	0.7	2.8	2.5
United Kingdom	-1.0	0.0	1.2	-1.4	0.8	2.7	0.1	2.3	-0.7	0.4	0.3	0.8	-0.7	-1.4	0.9
United States	2.5	2.0	2.3	3.4	5.8	4.5	-2.3	-1.5	-1.7	4.7	2.6	1.3	4.1	4.0	2.2
Eurozone	0.1	-1.0	-0.2	1.5	-3.5	-1.1	-0.1	0.1	-0.2	-	-	-	2.7	-2.4	-0.4
European Union	0.1	-0.6	0.2	1.5	-2.3	-0.3	-0.1	0.4	-0.2	-	-	-	2.5	-1.8	0.0

Source: IHS Global Insight

Note: IHS Global Insight forecasts for 2012 and 2013 (Data edge 2012 Q2). Date of forecast, 15 September 2012. These forecast values are provided as an indication of direction, representative of one vendor's view only. The values in the table may therefore differ from the Consensus values quoted throughout the report.

Crédito y Caución
Paseo de la Castellana, 4
28046 Madrid
Spain

creditoycaucion.es