Atradius

Managing risk, enabling trade

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Economic Outlook

Navigating a new world

Editorial

The fall of the oil price from USD 110 to around USD 50-60 in six months' time can be compared to a 'shot in the arm' for the world economy, according to IMF Managing Director Christine Lagarde. But is it working sufficiently?

The answer seems negative because global economic performance was again disappointing, at least when compared to the expectations we presented in our December Economic Outlook. At the time, global growth was indeed expected to pick up in 2015, but at this juncture, we can no longer uphold that view. Instead, we expect growth to be flat this year and to not pick up until 2016.

At first sight this seems surprising. The eurozone has delivered in the sense that its 2015 growth expectations even had to be adjusted upwards from 1.2% to 1.5%, a small increase but still an improvement. As we will elaborate in this new issue of our biannual Economic Outlook, this was helped by the ECB providing the monetary support to the system by way of an unexpectedly large, and unprecedented, quantitative easing programme. Formally designed to lift the eurozone out of a spell of deflation, it has had wider impacts. Even before the details of the programme were unveiled, the euro started to fall against the US dollar, providing a stimulus to exports. Meanwhile, Asia, the world economy's power house, continues to grow at 4.7%. As China is witnessing an unavoidable slowdown, it is measured and well-managed so far. India's economy is expected to accelerate far more than we anticipated in December, helped by good policies. Both the eurozone and even moreso these Asian giants are pushed up by the said 'shot in the arm'.

However, we may have to consider the side effects of the 'shot' to get the right picture. Indeed, US growth had to be adjusted somewhat downward. The impact of the oil price is ambiguous, as the US has become a leading oil producer. US households and energy dependent firms benefit. But US shale producers bear the pain, as was arguably the intention of the OPEC countries when making its hallmark decision in Vienna last November – to not adjust its production quota. For other countries, there is no such thing as ambiguity. Russia is simply badly hit and will face a severe recession. Brazil is not helped either as its high-cost deepwater oil production is severely affected as well. Latin American growth had to be adjusted with further downward corrections due to the less prominent price fall of other commodities, predominantly metals. Put together, these side effects of the 'shot' seem simply too strong to prevent the upswing to occur, at least in 2015.

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Executive summary

Global economic growth remains tepid and weaker than expected. A 'new normal' of structurally lower growth rates in both advanced and emerging markets has become manifest.

Key points

- Global economic growth is forecast to remain modest at 2.7% in 2015, the same rate as last year. Growth may pick up in 2016, but only slightly.
- The eurozone recovery is gaining strength with 2015 economic growth forecast at 1.5%. The United States' economy is projected to expand 2.9%.
- Both Eastern Europe and Latin America face a difficult year with economic growth at -0.4% and 0.5% respectively – though that should recover somewhat next year. Asia's economy, excluding Japan, is forecast to grow rapidly at 6.1%.
- The insolvency environment remains difficult despite the decrease in the overall number of insolvencies in many markets. In general, Atradius forecasts a slight improvement in conditions across advanced markets in 2015.

Global economic conditions have weakened over the past six months despite the acceleration of growth in the eurozone and the positive impact of low oil prices on many countries – as discussed in Chapter 1. Global growth is forecast to rise slightly next year, but remain modest from a historical perspective. This may represent a 'new normal' of lower potential growth in both advanced and emerging markets as a result of ageing populations, slowdowns in the application of new technologies and lower investments.

Global trade growth is similarly expected to remain low compared to pre-2007 rates, but may pick up somewhat compared to last year. Trade growth suffers from a change in the global supply chain structure, but could be boosted in the coming years by several planned regional trade deals. Global trade is forecast to grow 3.3% in 2015 and to pick up, reaching 4%, in 2016.

Economic growth in advanced markets has gained strength – as argued in Chapter 2. Especially the eurozone has experienced improving conditions with all member states returning to positive growth figures and rising consumer confidence. The economy benefits from the stimulus by the European Central Bank, low inflation and the cheap euro. The recovery has also so far withstood the renewed uncertainty over Greek debt and its place in the monetary union. Both the United States and the United Kingdom continue to experience solid economic expansion, although the outlook has eased in the first part of the year.

Emerging market growth slowed last year and is expected to ease further in 2015. As Chapter 3 explains, geopolitical risks, low commodity prices and country specific issues in some of the larger emerging markets are weighing on economic growth. In Latin America, the three largest economies – Brazil, Venezuela and Argentina – are all forecast to contract in 2015. In Eastern Europe, Russia and Ukraine will be in recession and in Asia, the Chinese economy will continue to slow down. However, in all regions, many countries that have sound policy frameworks should continue to grow strongly.

The outlook for the business climate across the globe is mixed at best – as presented in Chapter 4. In the eurozone, conditions remain difficult and insolvencies were still 87% above 2007 levels in 2014, despite a fall in the number of insolvencies in many member states. For 2015, Atradius forecasts insolvencies to fall 7% in the eurozone and most strongly in Spain and the Netherlands. Conditions in the United States and the United Kingdom are expected to improve as well. Many of the most important emerging markets, in contrast, such as Brazil, Russia and China, are projected to face increasing insolvencies, but from a relatively low level. Overall the business climate will remain difficult with global growth expected to remain modest this year and in 2016.

1. The global macroeconomic environment

Global growth flat as a 'new normal' becomes manifest

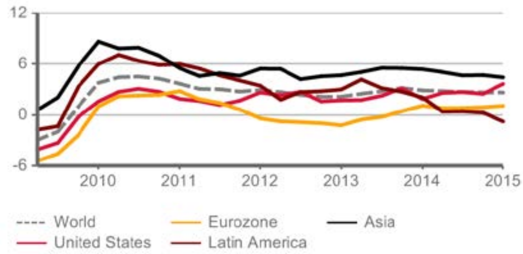
The developments in global economic growth, its regional disparity and the underlying reasons predicted in the December 2014 Economic Outlook have become manifest. We expect both trends to continue with flat growth and regional disparities characterising the 'new normal'.

Regarding global growth, we observed at the time that, while it had been expected (or perhaps hoped) to take off, it remained more or less flat around 2.7% in the second half of 2014. Such disappointment no longer seems in the cards because such a wave of optimism is simply not there. Instead, a new sense of realism surrounds the current view, in spite of tailwinds such as the more than 50% lower oil price and rather strong dollar appreciation – factors which should boost growth. Global growth is expected to be flat compared to last year at 2.7% and is forecast to pick up only slightly in 2016.

With the overall global growth level flat in 2014, considerable changes in regional disparities were observed. Latin America faced severe pressure on its growth. The region was hit by the end of the so-called 'super cycle' of high prices and volumes of commodities as well as number of local policy issues. There was further growth pressure on Eastern Europe as well. Elsewhere, in Asia and the US, growth was kept at bay, while the eurozone did emerge from a severe recession. As elaborated in this Economic Outlook, this changing pattern of growth disparities is here to stay for the forecast period. The US and the eurozone economies will further improve. Latin American growth will remain under pressure, while Eastern European growth is set to turn negative in light of the continued geopolitical tensions. Asia is set to remain the top performer in global growth rankings as growth is forecast to remain more or less stable.

1.1 Global economic growth

(Real GDP growth, y-o-y, percent)



Source: IHS

There are two underlying reasons for this 'new normal' that should be highlighted. Firstly, the December Economic Outlook mentioned the high debt levels – not so much public debt levels, but rather overall debt levels of government, households and firms. Since the 2008 crisis, these aggregate debt levels in the US, the eurozone and China, have moved into zones considered unsustainable. The inevitable deleveraging process that needs to start will weigh on future growth. Secondly, as the IMF has recently pointed out, something more fundamental is going on. The potential output growth level – the growth level that an economy can attain if all resources are fully employed – has come under pressure in both advanced and emerging economies. It is depressed due to factors such as an ageing population, a slowdown in the application of new information technologies, lower investment and, particularly for the emerging economies, infrastructure constraints. The result is that the advanced economies face 1.6% potential growth on average until 2020 (rather than 2.25% before the crisis) and the emerging economies 5.2% (rather than 6.5%).

Box 1.1 TTIP

The Transatlantic Trade and Investment Partnership (TTIP) is currently being discussed between the US and the EU. Unlike classic free trade arrangements, TTIP focuses on regulatory and other non-tariff barriers since levies on most products traded between the US and the EU are already close to zero or absent (except for running shoes and some chocolate). As concrete examples, pharmaceuticals should become subject to the same testing regimes, standards on car designs and chemical labelling should be harmonised or at least mutually recognised and safety regimes for oysters should no longer prevent transatlantic trade.

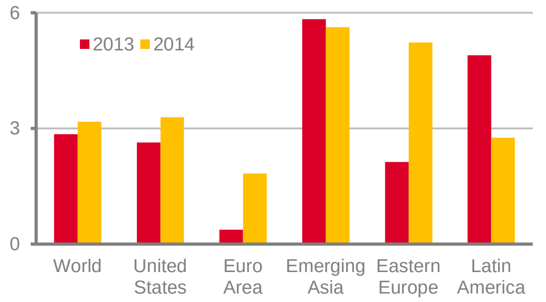
The expected benefits are large. Under an ambitious variant of the TTIP program, the trade stimulus that is expected to be generated will provide a 0.4% boost to US GDP and slightly more in the EU.[1] Still, it has already taken two years of negotiations without much progress. US officials are puzzled as to the underlying reasons.[2] They are arguably both economic and political. There are clear winners and losers as economic activity will shift between sectors and countries across the US and the EU. Clear winners in the EU are motor vehicles, transport equipment and electrical machinery, whereas the same sectors in the US will lose. The prospects of winners and losers opens the floor for political haggling as special (business) interests on both sides of the Atlantic raise their voices. As an example, in the EU, more specifically in Germany, fears have taken hold that food safety will be in severe jeopardy under TTIP, exemplified by the chlorine-soaked chicken that Germans can not refuse from US firms if no accurate measures would be taken. Another point of contention is the ISDS (investor-state dispute settlement) clause, which brings disputes between firms and states to an independent panel of experts that provides binding rulings. Critics, notably in the EU, argue the clause provides too much power to large (multinational) firms. Particularly EU politics can become fairly complicated as both national parliaments as well as the European parliament are supposed to sign off on the deal. In view of this, the TTIP agreement, despite its economic benefits, may still take a long time to materialise.

Trade growth has picked up somewhat

Global trade growth has increased in 2014 to 3.1% on average (from 2.4% in 2013) in line with economic growth developments. Indeed, Latin American trade growth declined significantly, in line with economic growth. That, in turn, reflects the slowdown of the Chinese economy, which has led to lower commodity volumes traded. The lower commodity demand by China has also led to lower commodity prices. The reduced commodity prices have exacerbated recessionary tendencies in large countries such as Brazil and Argentina, putting further pressure on their exports. Asian trade growth figures were more or less flat, in line with economic growth, whereas US trade grew modestly, reflecting economic developments as well. The most notable development is in the eurozone, where economic growth is much more trade intensive. As economic growth was still barely positive in the eurozone, trade growth reached 2% by the end of 2014.

1.2 Trade growth per region

(Export growth, percent)



Source: CPB

Despite being higher, global trade growth is still very muted, and far below the historical average of 5.5%. Furthermore, as we have argued in the December Economic Outlook, and has now been further substantiated by the IMF and the World Bank, it is unlikely to reach this level again. Still, protectionism rose again in 2014 (though at a slower pace) and trade finance remained in a slump. It is precisely improvement in these factors that may provide a spur to future trade growth, and thus future GDP growth. In this context, we should mention the two eye-catching regional trade liberalisation initiatives: the

[1] See Pelkmans et al., The Impact of TTIP, CEPR Studies, October 2014.
[2] See Ships that pass in the night, The Economist, December 13, 2014.

Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU (see Box 1), and the Transpacific Partnership (TPP) between the US and Asian countries. The stress testing conducted by the European Central Bank (ECB) in late 2014 will help as well. It has revived hope that trade finance bottlenecks can be relieved as European banks start lending again. This justifies some optimism which is reflected by slightly higher trade growth levels forecasted by the WTO: 3.3% in 2015 and 4% in 2016.

Oil prices fall further

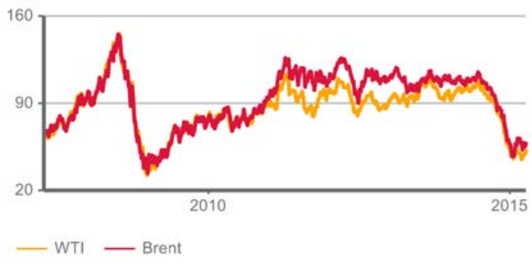
In December's Economic Outlook, a decline in the oil price to USD 90 per barrel of Brent (from USD 114) was reported and labelled as plummeting. That label may have been an understatement as the price declined to a low slightly below USD 50 in early 2015. Since then, prices have started to fluctuate between USD 50 and USD 60 per barrel. This decline took almost the entire market by surprise.[3]

Initial analysis has suggested that most of the decline can be attributed to supply factors. Firstly, shale oil production in the US was much higher than expected, and was the main contributor to the two million barrel per day production increase outside OPEC in 2014 (versus 1.3 million b/d in 2013). Secondly, OPEC members unexpectedly held up their production level of 30 million b/d, as announced in November. OPEC decided to attempt to maintain market share, rather than revenues. Thirdly, Iraq and, to a lesser extent, Libya saw a faster-than-expected recovery of production as their respective civil wars continued. The demand side was not accommodative for halting the price decline either. Consumption grew by 700,000 b/d in 2014, about half the growth in previous years. As a result, inventories have increased and prices have fallen. US inventories grew even more rapidly, providing an explanation for the significant discount at which WTI is trading compared to Brent. It reflects the fact that US production is not fully integrated in the world oil market due to their ban on exporting oil. IMF research suggests that supply factors outweigh the demand factors as the dominant driver of low oil prices.[4] That suggests the global economy has received a 'shot in the arm' through higher disposable incomes, calculated to be 0.2% additional growth per USD 10 oil price decline. A demand-dominated oil price decline would only reflect, and partly counter, faltering economic developments and thus provide a much less optimistic sign.

While the overall picture looks positive, there are winners and losers. Obvious winners of the lower oil price are oil importers, and energy-intensive sectors. The EU is a main beneficiary, with an annual import bill of USD 500 billion, which will be significantly reduced, perhaps even halved. For the US, being both a large importer as well as a producer, there is more ambiguity. The boost to real income for households and lower costs for most firms, particularly petrochemicals and transport firms, is still expected to dominate. The deflationary impact of the lower oil price is perhaps a reason for concern, but only if certain conditions are met. China will also benefit, as its import bill will be much lower. Additionally, countries benefit through the government budget, in particular if there are energy subsidies, as there are in India and Indonesia. Moreover, the deflationary impact reduces the high inflation in these countries. Countries with large agricultural sectors and high fertilising and hydration costs will also benefit. Meanwhile, oil producers bear the brunt. Middle Eastern oil exporters will be able to handle low prices as their production costs are low and reserves are ample. That will not be the case in countries like Brazil, where production in deep water rigs is only viable at high prices. Finally, Russia is vulnerable with its strong dependence on energy exports, a picture that also holds for emerging African countries like Angola.

1.3 Oil price

(Spot price in USD per barrel)



Source: IHS

Whether low oil prices are here to stay is another matter, but we think they are not. At the current low prices, shale oil producers in the US are unlikely to keep up current production growth levels. Indeed, the

[3] In December we forecasted an oil price of USD 85 to USD 90 in 2015. See Cheap Oil. Good news – for most, Atradius Economic Research, December 2014.
[4] See Box 1.1 IMF Economic Outlook, April 2015.

number of oil rigs employed in the US were down by 39% by the end of February, suggesting slower production growth. That is expected to lead to the start of a price recovery, as the supply surplus declines over the course of 2015, leading to a price just below USD 60 per barrel. Further support may come from the expected uptick in global economic activity, pushing prices to USD 70 per barrel in 2016. These are US Energy Information Administration forecasts, which sit slightly above IMF estimates based on oil futures prices, of USD 58 and USD 66 per barrel respectively.[5]

Commodity prices remain under pressure as well

Meanwhile, the pressure on prices of non-energy commodities, specifically metals, has continued. Metal prices have declined 14% since November last year and 44% compared to their 2011 peak. The decline in prices of iron ore and copper has been even more pronounced: 22% and 28% respectively. Steel prices have dropped as well. To understand the drop in metal prices, we should look at China.[6] With the exception of iron ore, Chinese imports of all these commodities have fallen since early 2014. Iron ore imports have gone up with the strong increase in Chinese steel production to a global share of 50%. China produces a large amount of iron ore itself, but that has so far been unable to meet the growing internal demand as a result of poor quality relative to international standards. Still, the iron ore price has substantially decreased. This is due to strong capacity expansion, particularly in Brazil and Australia. Early 2015 data indicate a slowing of Chinese iron ore imports as Chinese steel production slows.

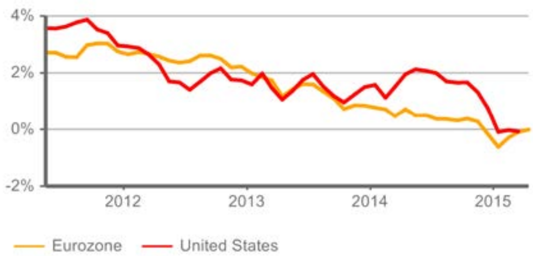
Underlying this is slowing Chinese growth and rebalancing away from investments and towards consumption.[7] Chinese economic growth has now fallen to around 7%, from 12.5% earlier in the decade. Moreover, with the country rebalancing towards more consumption-led growth, heavy industry and construction have come under pressure. Both factors are expected to put further pressure on Chinese industrial production and thus commodity demand and prices in the coming years. More pressure may come from the drive for cleaner and more efficient production methods, while some support may be expected from ongoing urbanisation and regional developments such as the New Silk Road. The rise in car and electrical device sales will also affect industrial production as the Chinese economy moves towards higher stages of development. Meanwhile, the Chinese government has announced a restructuring of the steel industry, in an attempt to reduce overcapacity. The plan also addressed pollution and total energy use. If executed properly[8], this will have a stabilising impact on steel and iron ore prices.

All eyes on monetary policy

Meanwhile, lower oil and commodity prices have left their mark on global inflation, particularly in the advanced economies, where it fell one percentage point to 0.6% in the second half of 2014.[9] In the eurozone, where growth was still lacklustre, inflation even turned negative. In the US, deflationary tendencies were visible as well. Emerging economies also felt the impact, albeit more modestly. Commodity exporters, such as Russia, are confronted with strong currency depreciation, sending inflation up. Some emerging economies, such as Brazil and Indonesia, have phased out energy subsidies, slightly increasing inflation as well. For the emerging countries, inflation levels are generally higher, although large differences exist. This situation has allowed for some more room for monetary policy easing, which is indeed what we have seen recently. It has also provided some further tailwinds for the global economy.

1.4 Consumer price inflation

(Annual percentage change CPI all items)



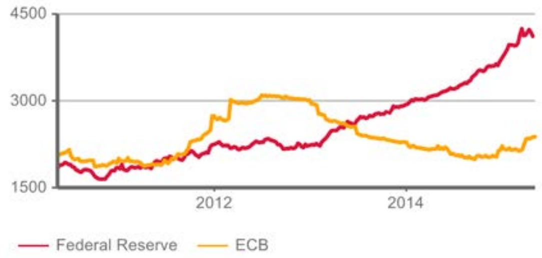
Source: IHS

[5] Consensus Economics' forecast for the oil price is USD 60 and USD 68 for Brent in 2015 and 2016 respectively.
[6] China consumes about 47% of the world's base metals (up from 13% in 2000) and accounted for the lion's share in the growth since 2000. It is the world's largest importer of copper, bauxite, coking coal, iron ore and nickel.
[7] The current share of investment in Chinese GDP is at more than 48%, twice the level in Brazil and Russia, for example.
[8] In 2013, a similar plan was announced with similar objectives to be met by 2015, but implementation proved hazardous.
[9] The figure regards the aggregate for inflation of the US, Japan and the eurozone.

Most prominently, in the autumn of last year, the ECB announced a quantitative easing programme of EUR 1.1 trillion. Under the programme, which started in early March, the ECB will purchase EUR 60 billion of assets on a monthly basis, including bonds issued by eurozone members' central governments. The ECB has announced that the programme will last until at least September 2016 – longer if the inflation target of 2% has not been met. Its size and scope exceeded market expectations. With the policy rate already around zero in the eurozone, monetary policy has now become extremely lax.

1.5 Balance sheet ECB and Fed

(Assets, billion of euro)

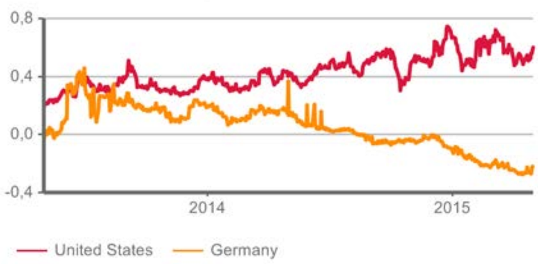


Source: IHS; ECB, Fed

Such a conclusion no longer holds for the US monetary policy, although the Federal Reserve (Fed) has only just exited its quantitative easing leg and is still keeping interest rates around zero. In that sense the policy is still very accommodative. A rate hike is expected later this year, with uncertainty over its timing still dominating financial markets. The Fed decision will most likely be statistics-driven, with the most recent labour market data pointing at acceleration and inflation data at deceleration. Looking at emerging markets, the lower inflation has allowed China, a large energy and commodity importer, to use (more conventional) monetary policy by the central bank cutting lending rates and easing reserve requirements for banks. India, another energy importer, but with high inflation, lowered its policy rate as well, just like Turkey, while Indonesia, with more moderate inflation, did not budge. Russia hiked its rate to 15% in an attempt to fend off further (currency depreciation triggered) inflation. A similar move was observed in Brazil.[10]

1.6 Short-term government bond yields

(2-year maturity, percentage points)



Source: IHS

Recent monetary policy changes, particularly those by the ECB, have not left financial markets untouched. Firstly, with policy rates in the eurozone around zero and abundant liquidity, it comes as no surprise that market interest rates have been falling as well. Short-term sovereign bond yields for a number of European countries, most prominently Germany, have even become negative, as long-term bond yields have slid towards the zero bound as well. Still, with inflation in the eurozone negative, real interest rates are above zero, and have even increased since early this year. US short-term interest rates have crept up a bit in anticipation of the expected policy rate hike later this year. Secondly, the low and diverging interest rates in the US and the eurozone have pushed up the dollar compared to the euro. Indeed, since the late spring of 2014, the dollar has gained more than 20% in value. Thirdly, for most of the rest of the world the potential rate hike in the US is the major threat. In late spring 2013, we already observed a mini-crisis in emerging markets, with capital flowing away from these countries to the US, leaving currencies of a number of countries under severe downward pressure. It can still be observed that such pressure, with anticipation for the US rate hike, is still there, albeit that, the acute character has faded. Indeed, the dollar has further strengthened against major emerging markets' currencies such as the Turkish lira, the Indonesian rupiah and the Brazilian real, while it has been more or less stable against the Chinese renminbi and the Indian rupee.

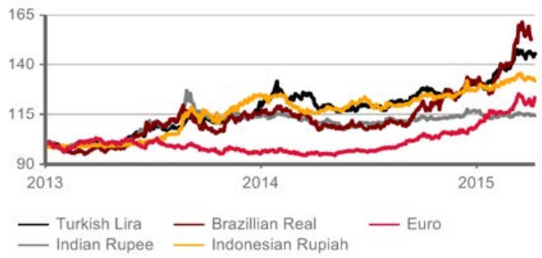
[10] The same holds for South Africa, the country of the New Fragile Five that we have identified in the December Economic Outlook. The other countries are Indonesia, Russia, Brazil and Turkey.

Box 1.2 The problem with deflation

The fall in commodity prices raises the question of whether or not the current deflationary tendencies should be considered a problem. As such, a fall in commodity prices, especially of oil, should indeed be welcomed, providing a ‘shot in the arm’ for global demand. Indeed, higher demand is precisely what is needed to get away from deflationary tendencies in the economy. Therefore, to the extent that deflation represents the lower commodity prices, it should be welcomed. Obviously, such benefit evaporates if wages adjust downward. A vicious downward price spiral may then take off. But such is unlikely as wages tend to be nominally fixed. Additionally, one may still argue that even with a larger income in real terms, consumers as well as firms may start to postpone investments as they start to expect a further decline in prices. For this argument, the crux is that such behaviour implies higher savings, which in turn depends on higher interest rates. Precisely such higher interest rates can be avoided by using monetary policy. And here comes in the zero interest bound constrained often talked of: the central bank should be able to lower the rate. If it is already zero or close to it, such as now in the US and the eurozone, lowering the interest rate is simply impossible and concerns over deflationary expectations getting hold in the economy may start to prevail. Monetary policy should remain potent. If not, fears of spending being postponed may be justified.

1.7 Exchange rates versus USD

(Index: 1/1/2013 = 100)



Source: IHS

For the eurozone both lower interest rates and the cheaper euro, relative to the higher US dollar and British pound, works positively, as borrowing costs for firms should be lower and eurozone exports are given a boost. Even the deflationary tendencies in the eurozone are countered as imports will be more expensive. As the US is less sensitive to higher interest rates and a more expensive dollar, the overall impact on the global economy is beneficial. For the emerging economies, the picture is the same for exports if the currency depreciates: a clear boost. But otherwise it is less clear-cut as countries with high inflation such as Brazil will be forced to implement rate hikes, losing the potential boost of a low interest rate like in the eurozone. Moreover, concerns for financial stability could take hold as (non-financial) firms in emerging economies have increasingly taken on USD-denominated foreign debt, with the International Institute of Finance (IIF) estimates indicating an amount of USD 108 billion maturing until the end of 2017. Currency mismatches by these firms may cause financial distress, constraining growth.

Geopolitical unrest is here to stay

The geopolitical conflicts involving the Islamic State in the Middle East and Russia-Ukraine in Eastern Europe discussed in the December Economic Outlook have persisted into early 2015 as well. At the same time, they have also not intensified, at least not in a considerable manner.

As to the Islamic State (IS) territorial surge, a US-led international coalition, with even Iran involved, has been able to contain it, using air strikes as well as raids on the ground. Indeed, IS has recently been forced to withdraw from cities such as Tikrit in northern Iraq and fears that it could reach the oil-rich southern parts of the country have waned. IS still dominates large parts of Iraq and Syria and continues to pose a threat both inside and outside the Middle East using terrorism.

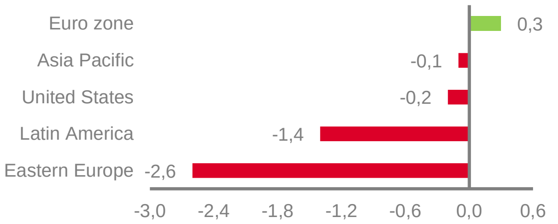
Further escalation of the Russia-Ukraine conflict seems to have been prevented by two Minsk agreements, at least for the moment. The same holds for tensions between the US, the EU and Russia, whereby no clear signs of dawn have emerged either. US and EU sanctions and Russian countersanctions remain firmly in place, with the Russian economy, impacted by the much lower oil price as well, heading for a severe recession in 2015, which will be elaborated upon in Chapter 3. The sanctions effectively deprive Russia of much needed foreign technology to modernise the economy, especially the energy sector – Russian firms can neither buy it, nor finance it. Spillover effects of the Russian recession to other countries may be considered limited, however.

Growth weaker than expected

Economic growth in 2015 has so far been disappointing. Forecasts for 2015 growth for many markets have been revised downwards over the past six months. The most major revisions have been for Eastern Europe, where forecasts are impacted by the recession in Russia, and for Latin America, where the largest economy by far, Brazil, faced more severe problems than initially forecast (see Chapter 3 for details). On the other hand, the growth outlook for advanced markets has been more or less stable and has even improved in the eurozone. The decline in commodity prices, especially that of oil, is helpful in general. The expansionary stance that the ECB has taken, accompanied by the dollar strengthening against the euro, has helped the eurozone economy pull out of recession as well.

1.8 Change in economic forecasts

(Percentage point difference GDP forecasts 11-2014 and 04-2015)



Source: Consensus Economics

Global economic growth is forecast to remain flat compared to last year at 2.7%. It is then forecast to pick up slightly reaching 3.2% in 2016. This is modest in historical perspective, but represents a 'new normal' – both advanced and emerging economies face a structurally lower potential growth rate. In 2015, growth is expected to pick up in advanced economies, with the United States economy expanding 2.9% and the eurozone economy 1.5%. For the emerging economies the picture is somewhat divergent. Asia will continue to lead the way at a slightly higher growth rate of 4.7%, helped by higher growth in India. Latin America on the other hand faces slowing growth this year as a result of economic headwinds in major countries such as Brazil. Most countries in Eastern Europe will see reasonable growth, but the regional aggregate is pushed down by the recession in Ukraine and Russia. For 2016, the picture is expected to improve, except in Latin America. Eastern Europe is forecast to recover as Russia stops shrinking while the three major economies, the United States, Asia and the eurozone, stay put. This is our baseline scenario.

Table 1.1 Real GDP growth (%) - Major markets

	2014	2015f	2016f
Eurozone	0.9	1.5	1.8
United States	2.4	2.9	2.8
Asia Pacific	4.6	4.7	4.9
Latin America	1.0	0.8	0.3
Eastern Europe	1.6	-0.4	2.1
Total	2.7	2.7	3.2

Source: Consensus Economics (April 2015)

Risks to the outlook

Our baseline scenario for the global economy rests on a number of assumptions, including higher trade growth, some gradual recovery in the oil price, continued monetary easing by the ECB, a well-crafted Fed rate hike, a managed China slowdown and contained geopolitical unrest. To what extent could these assumptions be considered (downside) risks to the global outlook and what would their impacts be? These boil down to five risk factors: (1) global monetary conditions, (2) China's slowdown, (3) eurozone growth (including Greece's potential exit from the euro area, a 'Grexit'), (4) the oil price and (5) geopolitical issues related to the Middle East and Ukraine.

Global monetary conditions: Global monetary conditions have remained loose as the Fed's exit from quantitative easing was succeeded by ECB action in the opposite direction. Moreover, both central banks have kept their policy rates around zero. As mentioned in previous Economic Outlooks, the risk is not so much that monetary policy changes are implemented, but that the markets are not well guided. That is precisely what the ECB and Fed have managed to do so far. At the same time, the global economy is very sensitive to Fed actions in particular, potentially triggering large capital flows away from vulnerable countries causing a potential credit crunch. Emerging markets are especially nervous. The point is that Fed actions are numbers-driven, based on US employment and

Table 1.2 Risks to the global economic outlook

	Risk issue	Symptoms	Effects	Probability	Impact
1.	Global monetary conditions	Unguided change in US monetary policy. Insufficient liquidity provisioning leads to credit crunch.	Financial market volatility. Capital outflows from specific emerging markets. Further USD appreciation.	moderate	moderate/high
2.	Eurozone growth	Slowing economic growth. Persistent decline in the rate of inflation. Greek exit.	Stagnation across the Eurozone. Re-escalation of sovereign debt issues.	low/moderate	moderate/high
3.	Chinese growth	Signs of further slowdown in economic activity. Instability in the banking sector.	Significant lower Chinese economic growth. Spillover to the rest of the world via trade and commodity channels.	low	high
4.	Geopolitics I	Escalating political and social unrest in Ukraine. More US/EU sanctions and Russian counter sanctions, in energy trade.	Severe recession in Russia. Adverse effects on Eurozone and energy prices.	low	moderate
5.	Geopolitics II	Further surge of IS, Middle East uncertainty.	Higher energy prices and high volatility.	low	low

Source: Atradius Economic Research

inflation data. As the data continues to offer surprises, so may Fed actions. The likelihood of an adverse event is therefore moderate, with a high global impact, unchanged compared to the previous outlook.

Eurozone growth: The eurozone seems to have embarked on a somewhat higher growth trajectory, helped by the lower oil price, the ECB's quantitative easing programme and a better monitored and capitalised banking sector that is beginning to lend more. Deflationary tendencies are still present – despite ECB action – which, in conjunction with high debt levels, may cause demand to remain subdued. Moreover, the risk of Greece exiting the eurozone has considerably increased since the left-wing Syriza party won the national elections by a landslide. Still, the global impact of a Greek exit is expected to be much lower than was expected in 2012 for the reasons mentioned above.

Chinese growth: The Chinese economy is inevitably slowing and rebalancing away from industrial production, with the impact felt particularly through the commodity trade channel. Moreover, its distorted financial system is undergoing an overhaul as shadow banks are brought under the regulatory system. Although we believe that the Chinese authorities have the means to, and are capable of, managing the process with economic growth slowing to about 5%. But a hard landing, which would have a considerable global impact, can never be ruled out. The likelihood of such an event is therefore low and the impact high.

Geopolitics I and II: We have argued in the text that the geopolitical risks related to IS and Ukraine have not changed much since the previous outlook. Regarding IS: the risk is still there but contained by a coalition of international military forces, including Iran. That justifies putting it lowest on our risk list. As for the conflict in Ukraine, matters look slightly different as it now seems to be frozen, with neither the US and EU nor Russia making significant moves. Given the dire straits of the Russian economy in 2015, an extension of the conflict into the energy sector has a low probability, as the ultimate impact remains high.

We expect the oil price to reach USD 60 in 2015 and USD 70 in 2016, a forecast that hinges on lower US production growth, consistent OPEC production and some demand recovery. As we have learned in the past however, the oil price can quickly move in either direction or remain level for some time. A lower price, for example due to more persistent US production growth, could have a further impact on oil-exporting emerging economies. The global impact will be limited, however, as a lower oil price clearly has an overall beneficial impact. Therefore, the persistently lower oil price is an upside risk for the global economy.

2. Prospects and risks in advanced economies

Taking the lead

The economic recovery in the advanced markets has gained further strength over the past six months due to the improving conditions in the eurozone. The outlook for the advanced markets is positive with growth picking up or becoming more solid.

The eurozone adds its weight

While the economies of the United States and the United Kingdom have been growing at a reasonable rate for some time, the eurozone economy seems to finally be picking up too. Growth in the region is benefitting from the expansionary monetary policy of the European Central Bank (ECB) and the low price of oil. Economic growth in the eurozone, however, remains modest and is forecast to improve only slowly in the coming years. It will lag behind the US and UK for some time.

The economic expansion in the US and the UK has become more solid over the past six months, and in both countries the central banks are considering raising interest rates. Unemployment rates have fallen strongly, confidence has reached a record high and growth in both countries is forecast between 2.5% and 3% this year and next.

The Japanese economy, the world's third largest, is moving out of recession. The economy contracted last year as a result of an increase in the value-added tax (VAT) rate, while the attempts to raise the inflation rate seem to have faltered. Growth is, however, forecast to pick up in 2015 and 2016.

Accepting the risks

The main risk to advanced market growth is internal. In the United States and the United Kingdom, if the interest rate rises too rapidly, this could hurt the economic expansion. The eurozone in turn faces a continued need for reform at the national and supranational level and uncertainty regarding Greece is impacting confidence and investment. Economic growth across advanced countries would also benefit greatly from more buoyant growth of emerging markets, while a significant slowdown would trim potential growth figures.

Table 2.1 Real GDP growth (%) – Major markets

	2014	2015f	2016f
Eurozone	0.9	1.5	1.8
United States	2.4	2.9	2.8
United Kingdom	2.8	2.6	2.5
Japan	-0.1	1.0	1.7

Source: Consensus Economics (April 2015)

Eurozone: the slow rise

The economic recovery is slowly gaining traction and, while risks abound, the outlook is improving. Economic growth is forecast to pick up, reaching 1.8% in 2016. This is still modest, but would be the highest rate since 2010.

Beating the forecasts

Economic growth across the eurozone is slowly, but steadily, picking up. Forecasters have actually raised their growth forecasts for most eurozone countries over the past six months. That is quite a turnaround as forecasts have been mostly revised downwards year after year since 2007. The eurozone is expected to grow 1.5% in 2015, well above the 1.2% growth predicted in the previous Economic Outlook six months ago, and well above the 0.9% expansion of last year. Spain and Ireland, in particular, are doing better than expected while the economic performances of Austria, Greece and Finland have proven disappointing. Of the largest economies, Germany is powering ahead growing 1.9% this year, while France (1.1%) and Italy (0.6%) lag behind.

Table 2.2 Real GDP growth (%) – Major markets

	2014	2015f	2016f
Austria	0.3	1.0	1.6
Belgium	1.0	1.3	1.7
France	0.4	1.1	1.6
Germany	1.6	1.9	2.0
Greece	0.8	0.7	2.0
Ireland	4.8	3.2	3.4
Italy	-0.4	0.6	1.2
Netherlands	0.9	1.6	1.7
Portugal	0.9	1.6	1.8
Spain	1.4	2.5	2.4
Eurozone	0.9	1.5	1.8

Source: Consensus Economics (April 2015)

Consumer pessimism is fading. In March 2015, eurozone consumer confidence rose to its highest level since 2007. Consumer spending also rose 1.5% over 2014, the fastest rate since 2006. One of the reasons for the increased optimism is the improved labour market. The unemployment rate has fallen from 12.1% in July 2013 to 11.3% in February 2015. Improvement over the past year was the most significant in Spain, Portugal and Ireland, where the unemployment rate fell by between 1 and more than 2 percentage points. Many households have also seen their wealth increase as house prices across the eurozone have gone up. House prices started to rise in the first half of 2014 after falling for two years. Prices rose by more than 10% in Estonia, Ireland and Malta, while they registered a decrease in France (-2%) and Italy (-2.9%).

Consumer confidence and spending is further boosted by the low inflation rate. Inflation in the eurozone reached -0.1% in March 2015, meaning prices were actually lower than the year before. Prices are down mostly due to energy and gasoline costs as a result of the lower global oil price. This raises the purchasing power of consumers. Even without including energy prices, the inflation rate was just 0.6% in March, far below the ECB target of below but close to 2% inflation. The low inflation rate could undermine the economic recovery as it raises real debt levels and may lead to consumers postponing purchases. For now, however, the positive effect of lower spending on energy and gasoline is expected to trump the negative effects on economic growth (see Box 2.1).[11]

Business confidence is positive, but has been stable over the past year. Industrial production rose 1.6% on an annual basis in February this year and manufacturing output rose 1%. Capacity utilisation has been rising over the past two years, climbing to 81% in the first quarter of 2015, the highest since 2011. As a result of rising consumer spending, retail sales rose 3% in February compared to the same month last year. Yet the turmoil in Greece also impacted investor confidence negatively in other eurozone countries.

A Greek tragedy

The Greek economy has been taken aback by the uncertainty over the renegotiation process of its rescue package, just as the economy was starting to get back on its feet. [12] The economy grew in the first three quarters of 2014 on a quarterly basis before contracting again in the fourth. The unemployment rate also fell from nearly 28% in late 2013 to 25.7% in January 2015 – though this statistic remains by far the highest in the eurozone. The Syriza-led government, which came to power after the election on January 25, has been demanding a change and reduction in the required reform under the countries bail-out agreement with its creditors. The uncertainty over a possible Greek exit from the euro has stalled investment and has crippled the banking system as consumers withdraw their deposits and reduce their spending as the government faces difficulties in paying wages and pensions.[13] The overall result is that the Greek economy is likely to contract again in the first half of 2015. Depending on the outcome of the

[11] For a detailed discussion on the risks to low inflation for the economy see Atradius Economic Research "Deflationary risk in the Eurozone", November 2014.
[12] In contrast to the then general expectation we warned that the Eurozone had not left behind its years of crisis yet in the note Atradius Economic Research, "Is the euro crisis over?" July 2014.
[13] For an extensive analysis of a Greek euro exit scenario, see Atradius Economic Research "Impact of a Greek exit", January 2015.

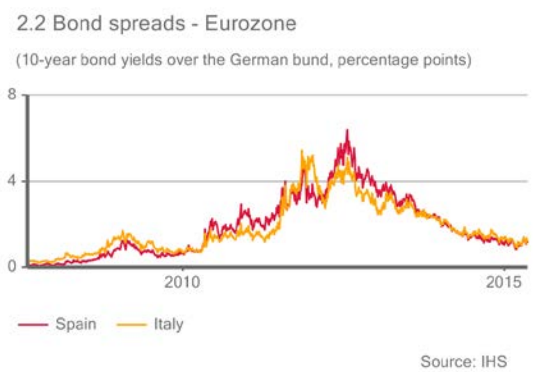
Box 2.1 Deflation and debt

Theory says that deflation is bad for debt as it increases the real value of debt. This is a concern in the current environment of low inflation, lingering deflation and still historically high debt ratios.

However, things are not that simple. A recent study from the Bank for International Settlements (BIS, 2015) sheds some more light on the relation between deflation and debt. For one thing, the above theory is static and only holds when all other factors are held constant. But in real life, other elements in the equation might change as well because of deflation and they might even change in favour of creditworthiness. Whether or not this is true, depends, among other things, on the type of deflation and on its cause. With regard to the type, one should distinguish between deflation of goods and services and of assets. There is no doubt that asset price deflation is bad for creditworthiness. Falling prices of houses, equities or bonds erode wealth and collateral values, resulting in lower demand, output and income, and a rising debt burden. This has been described by Fisher in his famous debt-deflation theory (1933). The financial crisis was a clear reminder of that. But for deflation of goods and services the relationship is less clear-cut. Here, the impact in theory depends heavily on the cause of deflation. Supply-driven deflation for instance raises output and income and as such would positively influence creditworthiness.

So, what does practice tell us about the relationship between debt and deflation? Based on a newly constructed data set covering 38 countries from 1870-2013, the BIS has empirically investigated this relationship. Their findings confirm that asset price deflation, particularly of property prices, is bad for output and for debt sustainability. But deflation of prices of goods and services is not necessarily bad for output and income. Even more so, in the post-war years, average output growth was even *higher* in deflation years, than in inflation years. Only if deflation was persistent would output growth suffer. But also then, it was still positive. A possible explanation for the difference in severity between the two according to the BIS is that falls in asset prices result in declines in (perceived) net wealth, whereas falls in prices of goods and services mainly result in a *redistribution* of income. That said, although the effect of deflation of consumer goods on aggregate output might be rather limited, which suggests that this will be less of a threat for aggregate debt sustainability, this does not mean that creditworthiness of individual borrowers might not be hit. Indeed, things are not that simple. Overall the low inflation so far does not seem to have a negative impact on eurozone economic growth or consumer spending, suggesting the impact on debt sustainability is limited.

negotiations, and how soon an agreement can be reached, part of the setback may be made up in the second half of the year.



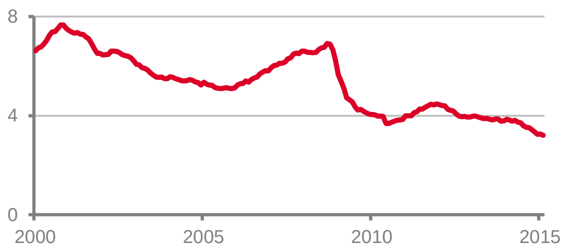
So far, other eurozone member states have suffered a limited impact. During the previous Greek crisis, yields on sovereign bonds in Spain, Portugal and Italy rose sharply as it was feared that a Greek exit would pressure other troubled eurozone countries to exit as well. That fear seems far away today, but Mario Draghi, president of the ECB, recently stated that while the eurozone is currently better equipped to deal with a Greek exit from the eurozone than in 2012, it would still lead to uncharted waters and the impact would be highly uncertain. The low yields on Spanish and Italian 10-year government bonds below 1.5% at the end of April may be largely due to the quantitative easing measures implemented by the ECB rather than investors' reassurance in the risks of the situation.

Taking credit

In line with the falling rates on government bonds, credit conditions have eased over the past six months. In September last year, the ECB lowered its main interest rate to 0.05% and announced a programme to buy private sector asset-backed securities. That programme has been further expanded by including the purchase of government bonds in March 2015. The result has been a steady drop in interest rates. Interest rates on corporate revolving loans and overdrafts fell to 3.2% in February this year, down from 3.8% in February 2014. Portugal, Ireland and Italy saw the biggest drop in interest rates. The low rates reduce debt service costs and may stimulate investment by lowering funding and opportunity costs. Furthermore, Mario Draghi recently noted that the difference in lending rates between eurozone countries is falling. This means that while financial fragmentation between eurozone member states remains large, conditions are slowly converging again.

2.3 Lending rates - Eurozone

(Revolving loans and overdrafts, companies, percent)



Source: ECB

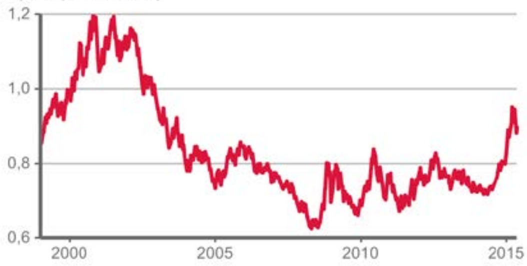
Lending conditions are starting to ease as well, further boosting overall credit conditions. According to the latest bank lending survey by the ECB, banks eased credit standards on loans to companies in the first quarter of 2015. While conditions also eased in the last three quarters of 2014, the latest change was by far the strongest improvement. Nonetheless, the value of outstanding loans is not yet growing. In February, loans to non-financial companies were 0.7% lower than a year earlier. But lending has slowly begun to pick up since October last year and may continue to grow this year. Banks across the eurozone are expecting a pick-up in demand for loans in the second quarter of 2015.

Euro falling, exports rising

Another effect of the measures taken by the ECB has been the fall in the value of the euro. The euro has fallen by around 25% against the US dollar since mid-2014. The two currencies have been trading close to parity which they have not done since 2002. This has benefitted eurozone exports to non-eurozone countries.[14] Eurozone exports increased 3.8% in 2014 and are expected to rise to 4.8% this year. The strongest growth was recorded in Ireland (+12.6%) and Greece (+8.8%). Spanish exports also rose by 4.2%. These countries are benefitting both from the cheaper euro and domestic reforms which have pushed down local wages. Import growth on the other hand has been significantly lagging behind export growth since 2010 as a result of the weak economic demand conditions within the eurozone. The growing difference between export and import performance resulted in a record trade surplus last year. Furthermore, the current account balance rose to 3.4% in 2014 and is expected to rise to 4% this year.

2.4 EUR/USD exchange rate

(Euro per US dollar)



Source: IHS

Taking a risk

Despite the benefits of the expansionary monetary policy, Mario Draghi has said that interest rates should not stay low for too long. There are costs to the low rates – one being that they are driving investors towards riskier assets to an extent that prices deviate significantly from their fundamental values. In other words, there is fear that bubbles are being formed in financial markets that could burst with a bang. Pension funds also rely on interest rates for income, so a low rate means a lower return on their assets and thus less money to pay out to pensioners. The central bank is trying to balance the positive and negative effects of the current loose monetary policy. But for now, the measures have successfully stimulated the eurozone economy leading to an acceleration in economic growth and an improvement in the outlook.

United States: consumers leading the way

[14] See Atradius Economic Research "The benefits of the falling euro", January 2015.

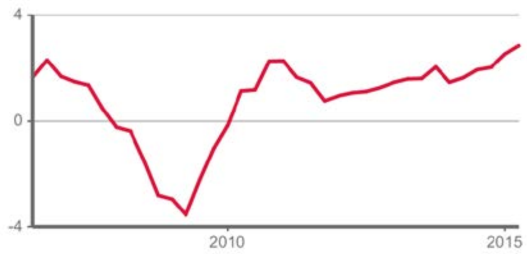
This year, the US economy is expected to show its strongest performance since 2005. Economic growth is forecast to pick up to 3.1% on the back of rising consumer spending.

Wages finally picking up

Consumer spending is set to rise considerably this year, becoming the main driver of economic growth. Consumers are benefitting from the improving labour market. Monthly job growth has been around 200,000 positions over the past six months, and the unemployment rate fell to 5.5% in March. Wages long remained flat despite the improving labour market last year, but are finally starting to pick up. With the labour market tightening, wages are set to rise further in 2015. Consumer purchasing power is further boosted by the low rate of inflation. Gasoline prices and heating bills have fallen as a result of the lower price of oil. Annual inflation fell flat to 0% in February, the lowest since 2009 and far below the 2% target of the Federal Reserve (Fed). As a result of the improving conditions, consumer confidence rose to its highest level since 2014 in January. As consumer spending accounts for more than two-thirds of the economy, its increase will significantly boost overall growth this year.

2.5 Consumption growth - US

(Real private consumption, annual percentange change)



Source: IHS

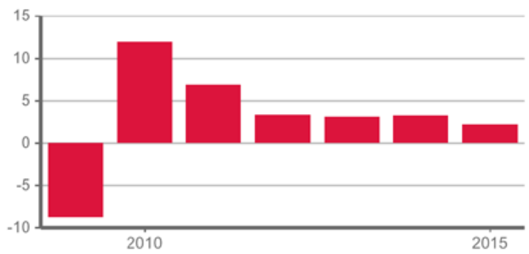
Oil sector and exporters feeling the pinch

Business investment may, however, disappoint as the oil and gas sector is negatively impacted by the low oil price. The oil and gas sector has grown rapidly over the past six years as technological improvements have allowed increased exploration of shale beds. This has turned the United States into a net producer of oil. But as the oil price has more than halved over the past six months, investment in new wells has fallen rapidly. While existing wells continue to operate until depletion, the number of active oil rigs in the US has fallen to 1,110 in March, down by more than 35% since March 2014. This steep fall in investment also impacts the manufacturing and industry sectors that supply the oil and gas industry. Nevertheless, the overall impact of the lower oil price on the economy will be positive, as consumers are more likely to spend the savings gained from their energy bills.

US exporters also face a challenging climate as the dollar has risen in value and the global economy has remained weak. The dollar has been rising on the back of a stronger US economy and the anticipation of an interest rate increase by the Fed. Since March 2014, the dollar rose more than 30% against the euro. This makes US exporters less competitive. As a result, forecasts for the growth rate of US exports in 2015 have been cut significantly over the past few months. Exports are currently expected to rise by about 2% this year and import growth by close to 5%. Not only are exporters adversely impacted by the strong dollar, but so are other US companies with earnings in foreign currency as they experience a fall in dollar-denominated earnings. This is one of the main reasons why earnings forecasts for Fortune 500 companies (the 500 largest US companies according to gross revenues) have been the worst since 2009.

2.6 Export growth - US

(Annual percentage change, goods and services)



Source: IHS

Fed policy: towards a rate hike

As the economy grows stronger, the Federal Reserve is increasingly looking at tightening monetary policy. Already in October 2014, the Fed concluded its programme of asset purchases (similar to the programme that the ECB began in March 2015). The next step would be to raise the interest rate, which stood at 0.25% since December 2008. Current expectations are for a rate hike in mid- or late-2015. After that, the interest rate is likely to continue to go up, albeit very slowly. The Fed has recently stressed that its intention is not to follow the previous interest rate cycles, in which the interest rate was increased every month by 0.25% for about a year and a half, as it believes the economy is still vulnerable to setbacks. With inflation being low, there is also little pressure to raise interest rates at a faster pace. A higher interest rate implies more difficult lending conditions for companies and households, some of whom may not be able to pay higher interest.

The US economy is performing relatively well and is expected to continue doing so this year and in the coming year. The main risks to the outlook lay in too rapid a tightening of monetary policy, a persistently strong dollar, and a bigger hit to the oil and gas industry should the oil price fall further. However, it is expected that the economy will remain strong, wages will rise and consumers will increase their spending for now.

United Kingdom: recovery gaining strength

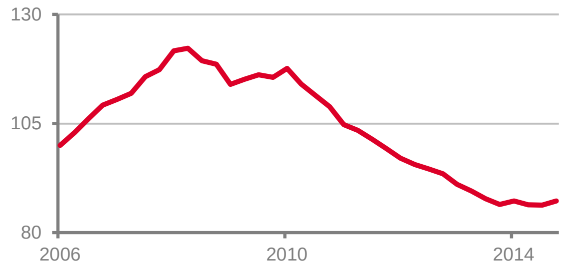
The UK economy has been performing remarkably well with growth forecast to reach 2.7% this year. Nevertheless, the economy is vulnerable and the positive outlook relies on wages picking up much more rapidly than they have done thus far.

Consumers: make it or break it

The economic recovery gained momentum in 2013 and 2014 and was largely driven by rising consumer spending. Spending benefitted from rising confidence in public policy and lower interest rates on lending. Purchasing power, however, did not rise as wages remained stagnant. Consumers borrowed instead to finance the increased spending. Such growth is not sustainable, but may be replaced by wage growth this year. The labour market has tightened significantly over the past years with the unemployment rate falling to 5.5% by the end of 2014, down from 7.2% a year earlier. Wages have so far lagged behind this improvement, but are expected to start rising in 2015 as the labour market tightens further. Consumer purchasing power this year will also be aided by the low rate of inflation which reached 0% in February this year. Consumer spending has been an important driver of the economic recovery over past years and needs to be supported by a solid expansion in wages in order to continue to drive the economy this year and next.

2.7 Real wages - UK

(Index 2006 = 100)



Source: IHS, Atradius

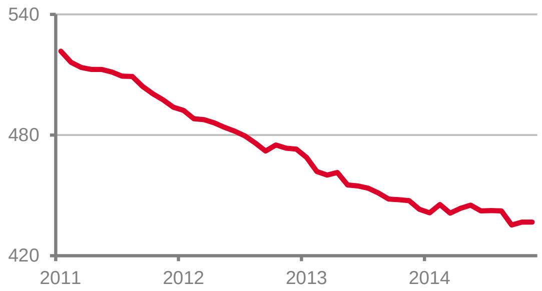
Companies profit from rising consumer spending – retail sales rose 5.7% in February compared to the same period last year and car sales rose 6% in March over the year before. Business investment slowed in the months leading up to the election but is expected to pick up again afterwards. Even export growth is forecast to remain solid despite the stronger pound. Exporters benefit from the rising economic growth in the EU which represents around half of UK exports. The strong US economy, accounting for almost 9% of exports, is also benefitting UK exporters. Nevertheless, uncertainty over a possible referendum regarding Britain's possible exit from the EU could impede investment, specifically hurting British exporters who would face re-established tariffs and regulations. The expectation is currently that a vote would lead to a small majority in favour of staying in the EU, but the outcome is highly uncertain.

To ease or to tighten

Credit conditions have generally improved over the past six months with interest rates for companies falling and access to lending from banks gradually easing. Banks, however, remain strict in their lending partly because they are still cleaning up their balance sheets in compliance with stricter regulations. Total lending to non-financial corporations was still 1.9% lower in February this year than in February 2014. Banks' lower lending appetite will continue to weigh on economic growth in the coming years. Nevertheless, the Bank of England (BoE) assesses the health of the financial sector positively.

2.8 Lending to companies - UK

(Billion pound)



Source: Bank of England

Given the improving conditions, the Bank of England is expected to start raising interest rates by the end of 2015 or early 2016. This would be the first rate increase since March 2009 when the interest rate was lowered to just 0.5%. Over the past months, there have been some voices calling for further easing by the BoE instead of tightening based on lower-than-expected inflation and slower-than-expected wage growth. But the BoE's position remains that rates should rise in the near future since the labour market is increasingly tightening and inflation is kept low due to the oil price as opposed to fundamental issues in the economy. The current outlook is that wages will rise and that consumers will support the solid economic expansion.

Japan: easy does it

Japanese prime minister Shinzo Abe won the December 2014 election, with his LDP party claiming 325 of 475 seats. The LDP's landslide victory underlines popular support for PM Abe's three arrow approach to revitalise Japan's economy, known as Abenomics. The first arrow of Abe's economic plan is aggressive monetary expansion by the Bank of Japan (BOJ) with the goal of boosting inflation to 2%. The second arrow is a deficit-financed government spending programme and the third is a programme of structural reforms to stimulate private investment. The third arrow is to implement structural reforms. The overarching goal is to boost real GDP growth to 2%.

Early last year, as part of the structural reforms package, a value-added tax rate hike led to a slump in consumption. Therefore, a subsequent tax increase has been postponed by 18 months to April 2017 to give more time for Abenomics to revive the economy. A supplementary budget for 2014 and 2015, worth USD 25 billion, was approved in February. In addition, quantitative easing was expanded in October 2014. The labour market, healthcare and the agricultural sector are also planned to be reformed.

So far, it seems Abenomics is partially working. Inflation continues to grow disappointingly slowly and is expected to reach 0.7% in 2015 and 1.0% in 2016. Furthermore, modest economic growth rates are expected for 2015 (1.0%) and 2016 (1.7%). Export may continue to benefit from the weakening yen and in general the business environment may improve. Japan still faces some challenges as its fiscal deficit remains high and the population ages rapidly. With the strong election result, prime minister Shinzo Abe has a strong mandate to implement the necessary reforms and get the economy on the right track.

3. Prospects and risks in emerging economies

Growing fast, but slowing down

Economic growth in the emerging markets slowed to 4.5% in 2014 from 5% in 2013. Growth projections have been revised down further over the past six months to 4% in 2015 and 4.8% in 2016. Falling commodity prices, capital outflows, geopolitical risks and country-specific issues in some of the larger emerging markets are weighing on the economies. Economic performance continues to diverge across and within regions. Sound policy frameworks have once again proven their shock absorption capacity in the better performing emerging markets.

Emerging Asia continues to be the fastest growing region. The region generally profits from the decline in commodity prices, which counterbalances the negative impact of slowing growth in China. Here, India is taking over China's role as the main engine of growth, on the back of structural reforms. The outlook for the region is for stable high growth (see Table3.1).

Growth in resource-rich Latin America on the other hand has been hit hard by the slowdown in China and falling commodity prices, which exacerbated the impact of homegrown problems in Argentina, Brazil and Venezuela, who, combined, make up 60% of the region's GDP. Growth will remain under pressure this year, but should improve in 2016 along with strengthening commodity prices and improving macroeconomic policies in Brazil taking effect.

The Russia-Ukraine conflict and falling oil prices have led to a deep contraction in Russia and Ukraine. Since Russia is such a large market, the figure for the regional aggregate growth is significantly suppressed. However, the impact on Central and Eastern Europe has been relatively limited. Many EU members in this region will benefit from the recovery in the eurozone.

Geopolitical tensions and low oil prices continue to constrain growth in the Middle East and North Africa (MENA). While the region continues to struggle with the extremist group, the Islamic State (IS), the recent crisis in Yemen illustrates the risks that long-standing issues can present if they escalate. The outlook remains fairly positive nonetheless. Negative effects on MENA's oil exporters are balanced by positive effects on the region's oil importers, while it also profits from a strengthening eurozone.

The economies of Sub-Saharan Africa are affected by the lower commodity prices (in particular oil and metals), resulting in a significant deceleration of economic growth. The oil producing countries are expected to benefit from higher oil prices in 2016. Countries that export different kinds of commodities should not expect a sharp recovery.

Table 3.1 Real GDP growth (%) – Regional

	2014	2015f	2016f
Asia (excl. Japan)	6.2	6.1	6.1
Eastern Europe	1.7	-0.4	2.0
Latin America	1.3	0.5	2.1
Middle East & North Africa	2.4	2.7	3.7
Sub-Saharan Africa	5.0	4.1	4.8

Source: Consensus Economics (April 2015), IMF WEO (April 2015)

Of the largest emerging markets, growth is cooling down in China, Nigeria and Saudi Arabia. Brazil and Russia are in recession, while the economic crises in Argentina (in technical default) and Venezuela (near default) are deepening. In contrast, growth is picking up in India, Indonesia, Mexico, Poland, South Africa and Turkey.

Exposed to international investor sentiment

Risks to the outlook are mainly to the downside, as described in Chapter 1. Persistent uncertainty about the timing of the first increase in US interest rates will keep emerging market capital flows volatile and exchange rates high. Countries with a high stock of inward portfolio capital relative to their official reserves are particularly exposed to exchange rate risks: Brazil, Chile, Indonesia, Mexico, South Africa and Turkey all have ratios above 150%.[15] Most vulnerable to exchange rate risks and risk aversion, however, are countries with large external financing needs and low external buffers. Turkey stands out in this regard as its external refinancing needs are almost twice as high as its official reserves (ratio of 176%). Chile, South Africa and Indonesia are relatively vulnerable and, to a lesser extent, Mexico. These exposures may undermine the forecast recovery in economic growth next year, while domestic issues and geopolitical tensions may also challenge the outlook.

Asia: China performs poorly, India does well

Asia remains one of the most rapidly growing regions in the world. Forecasts for growth of developing Asia have also been relatively stable, marking the benign economic conditions over the past years. The modest slowdown of the Chinese economy is being compensated by the strong and rising growth in India, while markets such as Indonesia and the Phillipines should continue to see growth rates above 5%. Also richer countries like Hong Kong, Singapore and South Korea are expected to fare well with growth rates between 2.5% and 3%.

Table 3.2 Real GDP growth (%) - Asia

	2014	2015f	2016f
China	7.4	7.0	6.8
Hong Kong	2.3	2.5	2.7
India	7.4	7.7	8.0
Indonesia	5.0	5.4	5.7
Singapore	2.9	2.9	3.4
Taiwan	3.7	3.7	3.6

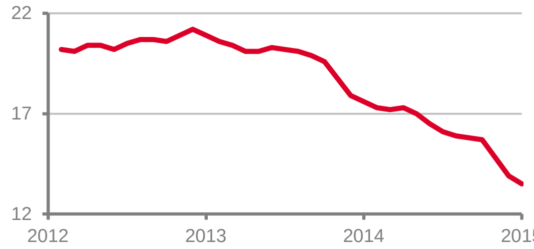
Source: Consensus Economics (April 2015), Atradius

China: measured slowdown

China's 2015 first quarter growth figures eased to 7% year-on-year, the weakest figure since 2009. For 2015, 7% growth is expected for the economy, a slowdown from 7.4% in 2014. Slower growth in fixed asset investments is the main contributor to the decelerating economic growth in China. This reduction in investment growth is due to the ongoing correction in the real estate sector and overcapacity in related sectors.

3.1 Investments in fixed assets - China

(Accumulated growth rate)



Source: NBS

Economic data from the second quarter point to a further deceleration of economic growth. To prevent a sharper economic downturn the Chinese authorities are introducing targeted stimulus measures and are easing monetary policy. The official policy rate and the reserve requirements for banks (RRR) have been reduced over the past months. The authorities also lowered the down payments on second home purchases to support the real estate sector.

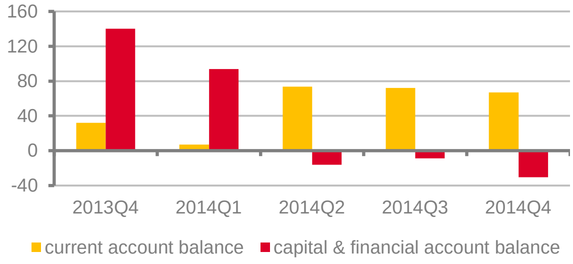
These measures might sound contradictory in light of the government's intention to rebalance its economy away from an investment-led model towards a consumption-led economic growth model. They may lead to an increase in new bank loans, but overall lending data show a downward trend due to the measures implemented to constrain shadow banking activities. The government is trying to reform the economy, but the process is slow.

The current leading contributor to China's GDP is the country's net exports. Exports are increasing while the volume and value of imports are declining due to lower domestic demand and lower commodity prices. The trade balance has been showing high surpluses in previous quarters. In the last quarter of 2014, it even showed a record surplus of USD 173.4 billion. While the current account has been showing structural surpluses, the capital account has recorded outflows in the last months of 2014, resulting in downward pressure on the renminbi.

[15] Poland has a ratio above 150% as well, but this is to a large extent denominated in euros. The same goes for its external debt and refinancing needs.

3.2 Current account balance - China

(USD billion)



Source: SAFE

A deceleration in investment growth is highly important looking at the dependency on investments for China's growth model in previous years and the increased vulnerabilities from this rapid increase in investments as well as credit. The result of this investment boom in the period from 2009 to 2012 is a highly leveraged economy, making China one of the most indebted countries in the world. According to McKinsey, total debt reached 282% of GDP in the middle of 2014, compared to 158% of GDP in 2007. The largest part of this increase in debt is related to non-financial companies, especially property developers and state-owned companies, the debt of which amounts to 125% of GDP. Government debt amounts to 55% of GDP and financial institutions 65%. Household debt is low at only 38% of GDP.

High debt levels come with high risks, especially in the real estate sector as a large part of the debt is linked to property. Other risks are financing through local government financing vehicles and the role of shadow banking activities. These risks are interconnected and a sharp correction in the property sector in combination with financing difficulties at local governments could result in rising defaults. This would have a negative impact on the banking sector and eventually on the economy.

Chinese authorities are aware of the risks in the economy and are introducing reforms. To help out the local governments, the government announced in early March of this year an estimated USD 160 billion debt swap, in which local government debt will be replaced by low-interest municipal debt. More debt swap deals can be expected. This debt deal serves to reduce the financial vulnerabilities of the governments.

Reducing the above vulnerabilities is high on the agenda, but it is also quite challenging. At the same time, the authorities are also implementing reforms while actively working to prevent a sharp economic downturn. We do think that the government has the capacity and the willingness to prevent severe damage to the banking sector and the economy. As a centralised economy, the government has substantial control over the economic and financial activity to maintain stability. The outlook is therefore of a measured slowdown of the Chinese economy.

India: acceleration

It is only one and half years ago that India was classified as one of the 'fragile five' countries, the group of emerging markets that saw their currencies depreciate rapidly due to a sudden withdrawal of foreign capital. Now India's fortune has turned around. For the first time in many years, the country is being governed by a stable majority government. Prime minister Modi appears to be a capable and pro-business reformer. The government is aiming for a tax reform that should attract more FDI. Another key objective is the reduction of subsidies that would make some means available for investment in railways, roads and power stations. The elimination of fuel subsidies also helps with fiscal consolidation: the government budget deficit was reduced to 4.1% in the current fiscal year compared to 4.4% in the previous year. India, as a major importer of oil, is benefitting from the current low price of oil. The low oil price is also pushing down inflation. Inflation peaked at 11% in early 2014 but has since then fallen to approximately 5%. Since the start of this year, India has succeeded in attracting a record amount of portfolio and direct investment, probably partly due to China's relatively poor economic performance. The Modi administration has succeeded in restarting badly needed structural reforms. The economic prospects are bright: real economic growth is forecast at 7.7% in 2015 and 8.0% in 2016.

ASEAN: getting together

At the end of this year, the Association of Southeast Asian Nations (ASEAN) will take a historic step. It will form the ASEAN Economic Community (AEC). Clearly inspired by the (former) European Economic Community, it aspires to establish an internal market for goods, services, capital and people. This is likely to give an unprecedented boost to intra-regional trade in Southeast Asia and will support economic growth in the foreseeable future. The countries of Southeast

Asia are often overlooked in international investment decisions. Many of the ASEAN member states are relatively small and are dwarfed by their bigger neighbours China and India. If ASEAN integration becomes more successful, the bloc is likely to attract more foreign direct investment. ASEAN has a young population of 600 million and its GDP is equal to USD 2.4 trillion. The bloc is expected to achieve real economic growth of 5% per annum over the medium to long-term. The region is very fertile, has ample natural resources, a favourable geographical location in terms of potential trade (between Asia's emerging superpowers China and India), a young and ambitious population and a relatively stable political setting.

The AEC will also face big challenges, exacerbated by the fact that the region is economically far more diverse than the European Union. Differences in welfare are huge: Singapore is one of the world's richest nations, Myanmar is one of the poorest. Singapore is one of the world's most liberal economies, while Vietnam and Laos are still (notionally) communist. Singapore, Malaysia and Vietnam are politically stable, but Myanmar and Thailand face serious political tensions (of different nature). Therefore, the AEC's internal market is likely to start as a free trade zone for goods. Real free trade of services, capital and people is likely to take a while. Nevertheless, the establishment will be remembered as a milestone in the history of ASEAN.

Latin America: underperforming, headwinds persisting

Despite its proximity to the United States, where economic growth is sustained, Latin America's economy is still in the doldrums and the outlook remains challenging. This resource-rich region is particularly exposed to the economic slowdown in China, structurally lower commodity prices and a normalisation of US monetary policy. Meanwhile, intra-regional divergences keep growing. Countries with strong policy frameworks are better able to withstand the shocks stemming from global headwinds than those with weak policy frameworks.

Brazil, Argentina and Venezuela, together representing nearly two-thirds of regional GDP, will remain heavy drags on economic growth in the region. In Brazil, this is partly related to a much needed policy correction which, if successfully implemented, will bring a long-term gain to the economy, but at the cost of short-term pain. Meanwhile, the economies of the Pacific Alliance countries – Chile, Colombia, Mexico and Peru – will continue to outperform the rest of the region. They benefit from stronger policy frameworks and a strengthening US economy.

Table 3.3 Real GDP growth (%) – Latin America

	2014	2015f	2016f
Argentina	0.5	-0.5	1.9
Brazil	0.1	-1.1	1.2
Chile	1.8	2.8	3.5
Colombia	4.6	3.4	3.5
Mexico	2.1	2.9	3.4
Peru	2.4	3.7	4.7
Venezuela	-4.0	-6.0	-2.3

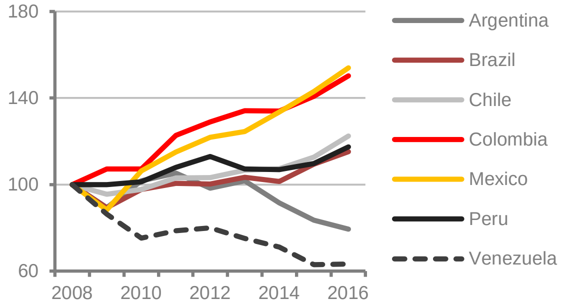
Source: Consensus Economics (April 2015)

Argentina and Venezuela: (near) default

Soya-dependent Argentina and oil-dependent Venezuela are most at risk in the current environment of weak commodity prices and adverse market sentiment, worsened by poor management. On top of the terms of trade losses, they also experienced sharp falls in export volume. Authorities in both countries are running out of options as the economic crisis deepens. Their economies are contracting, inflation is exploding, official reserves are dwindling and social pressures are mounting. Policies have been further radicalised, including a tightening of existing capital controls to preserve official reserves, but have in fact deepened the economic crisis. With international capital markets being closed for both countries, the risk of uncontrolled currency depreciation and transfer and convertibility risks remain extremely high.

3.3 Export growth - Latin America

(% change y-o-y, goods and services)



Source: CPB

In Argentina, the government remains in default and risks to political stability are rising following the death of a prosecutor last January who had accused President Cristina Fernández de Kirchner of conspiracy. But prospects could improve after the elections in October 2015. Ms Fernández is legally prohibited from running, so there will be a regime change. All candidates are advocating for more orthodox, pro-business policies, which is promising. That said, whoever wins will face a Herculean task considering the dire state of the economy. Unwinding these macroeconomic imbalances will be a prolonged affair.

Table 3.4 Inflation (%) – Latin America

	2014	2015f	2016f
Argentina	33.5	42.5	42.4
Brazil	6.3	7.2	6.8
Chile	4.4	3.9	3.1
Colombia	2.9	3.7	3.4
Mexico	4.0	3.6	3.3
Peru	3.2	3.0	2.7
Venezuela	62.2	96.8	83.7

Source: Consensus Economics, IIF and IMF (April 2015)

Prospects for Venezuela remain dim, as no regime change is to be expected in the coming years. President Nicolás Maduro's approval rates are falling amid a deepening economic crisis and high crime rates. But the opposition is weak and represents little threat. Maduro's administration will thus most likely serve out the remainder of its term, which lasts until December 2018. Meanwhile, the sharp drop in oil prices has exacerbated chronic dollar shortages as income from oil exports have fallen. Following the latest capital control measures, dollar sales to the private sector are virtually non-existent.

The deepening crisis in Venezuela is posing an increasingly large obstacle to the PetroCaribe members, who receive cheap oil and concessional financing from Venezuela under the agreement. Mr. Maduro has already tightened some of its terms, which will limit the positive effect of lower oil prices on fiscal and external accounts of PetroCaribe members. Most vulnerable is Nicaragua, which is highly reliant on this scheme, has high external financing needs and has limited access to external financing. The high-risk economies of Cuba and Jamaica remain vulnerable as well. But for Cuba these risks are somewhat mitigated by a gradual rapprochement between the US and Cuba in the past months.

Brazil: improving policies, troubled economy

Brazil is beginning to shift towards a more orthodox policy mix following the re-election of President Dilma Rousseff at the end of October 2014 and the start of a new economic team headed by fiscal hawk Mr Joaquim Levy. Interest rates have been raised five times and were at 13.25% at the end of April 2015. Fiscal policy is being tightened and social spending, including price subsidies for gasoline and energy, is being reduced. These unpopular measures are needed to reverse past policy slippage, improve government finances, confidence and economic growth, and to preserve the government's investment grade ratings. But this policy correction is having an adverse impact on economic growth and inflation in the short run.

Economic growth was already suffering from declining competitiveness, weakening demand from China, falling commodity prices and a severe drought. On top of that came a massive corruption scandal at national oil company Petrobras, which is having negative repercussions for investment not just in oil and gas but also in infrastructure and construction. As a result, real GDP will contract this year. Despite lacklustre demand, inflation continued rising and is currently trending above 8% year-on-year, up from 6.4% at the end of 2014. This reflects policy measures to reduce price subsidies and a sharp depreciation of the currency.

The corruption scandal at Petrobras has also negatively affected domestic and external confidence. This outweighed the initially positive effects on market sentiment following the start of the new economic team. As a result, the Brazilian real was one of the worst performing currencies over the past six months as it depreciated over 30%. Other factors negatively weighing on sentiment were concerns about the ability of the economic team to implement adjustment measures and to improve government finances in an environment of a shrinking economy and rising interest rates. These concerns were fuelled by a political backlash in Brazil's national congress against some of the proposed measures to cut social spending.

Developments since last April are however promising and the negative trend in market sentiment seems to have been reversed. The Brazilian real was even the best performing currency after the Russian rouble in April this year. This was fuelled by the Petrobras' long-awaited issuance of its financial statement for 2014 and by President Rousseff's appointment of a leading member of her main coalition partner as chief political coordinator. This is a strategic position between the president and congress and might help to break the political backlash.

Although the near term outlook for Brazil's economy is gloomy, the economy is set to gradually improve from 2016 onwards. In the medium term, Brazil's earnings capacity is set to improve due to developments in the energy sector. For these to materialise, the problems at Petrobras need to be addressed, the business environment needs to be strengthened and the oil price should recover. That said, Brazil's shock absorbing capacity remains strong and is underpinned by a diversified economy, a sound banking system, low external debt and substantial international reserves.

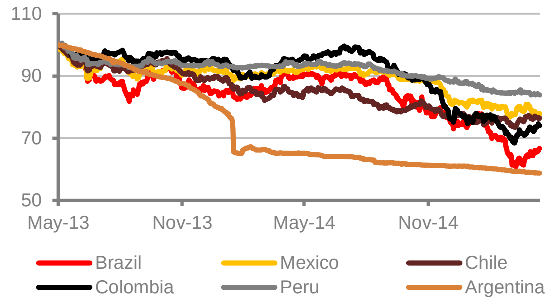
Mexico: sound policies, improving economy

Mexico's economic prospects are improving, although the growth revival is being slowed by domestic political woes and tougher external conditions. However, its economy is well positioned to deal with the challenges stemming from falling oil prices, a stronger dollar and a normalisation of US monetary policy, thanks to its strong shock absorbing capacity and close links to the US who accounts for 79% of its exports.

Falling oil prices are putting pressure on government finances, as oil accounts for about a third of government revenues, and are complicating the implementation of energy reforms. But the government's adequate response is mitigating the impact on sovereign risk and has kept the bidding process for exploration and exploitation of oil fields by private companies on track. This response consists of: (1) an oil hedging programme, covering 57% of oil income; (2) budget cuts of 0.7% of GDP for 2015, while proposing to congress additional cuts for 2016; (3) accelerated Pemex restructuring; and (4) improved incentives for private investment in the energy sector and starting the bidding process for shallow water oil fields, which require lower investments, while delaying the auction of unconventional and deep-water fields. This strategy seems to be successful: 23 fields have thus far been offered. The first contracts are expected to be signed in the summer – exploration could start by the end of this year.

Moreover, the government has been using the peso depreciation as a shock absorber for government finances and external balances. Peso weakness, demonstrated by its 16% depreciation between July 2014 and April 2015, might pose a challenge for some corporations, who have increased their USD borrowing over the past years. That said, corporate debt is still low, at 21% of GDP with about two-thirds being externally financed, and refinancing risks are being mitigated by sufficient reserves, underpinned by a flexible credit line from the IMF, and excellent access to international capital markets. Mexico's government is the only one in Latin American with outstanding century bonds in international capital markets.

3.4 Exchange rate vis-a-vis USD
(Early May 2013 = 100)



Source: IHS

Chile, Colombia, Peru

Within the other Pacific Alliance member countries, prospects are brightening for copper producers Chile and Peru, while oil producer Colombia is moving towards a lower growth path. This partly reflects diverging policy stances to deal with the global headwinds.

Chile and Peru, which are both emerging from a home-grown soft patch, have room for mildly expansionary fiscal policies. The dependence of government revenues on commodity income is relatively low because they have used the boom years to create fiscal buffers and their government debt is relatively low (14% of GDP for Chile; 21% for Peru). Colombia, on the other hand, needs to tighten its policy to adjust the budget to a lower oil price (oil income accounts for a quarter of government revenues). This is needed to support government creditworthiness considering relatively high government debt (38% of GDP) and the absence of fiscal buffers. Furthermore, economic growth in Chile and Peru are expected to profit this year from the lagged impact of earlier interest rate cuts, whereas Colombia's economy will feel the pain of earlier rate increases needed to prevent its economy from overheating.

That said, the economic environment in Chile, Colombia and Peru will remain supportive for credit. All three countries will continue to show contained inflation and growth levels above the regional average. Peru will regain its position as the region's top performer after Panama, as two mining projects come online in the next two years. The main challenge for credit risks in these three countries comes from the exchange rate. Whereas the currencies from Chile and Peru have been moderately hit losing some 10% of their values between July 2014 and April 2015, Colombia's peso was among the strongest hit currencies, depreciating by about 25%. External refinancing risks in all three countries are mitigated by sound policy frameworks, good access to international capital markets and sufficient reserves, which in the case of Colombia are being underpinned by a flexible credit line from the IMF.

Central and Eastern Europe: rising divergences

So far, the impact of the Russia-Ukraine conflict on Central and Eastern Europe has been relatively limited. Improving conditions in the eurozone are partly compensating for negative spillover effects from the conflict.

Some of the countries in this region have been affected by the end of the ceiling on the Swiss franc exchange rate relative to the euro in January – most notably Croatia, Hungary and Poland, where households have borrowed significantly in Swiss francs. In Croatia and Hungary, regulatory measures have shifted the negative impact from households directly to the banking sector, whereas in Poland, the banking sector will only be indirectly affected. The impact will be felt most in Croatia, where 2014 marked the seventh consecutive year of economic contraction. Its largely foreign-owned banking sector is, however, in a good position to withstand this shock.

Table 3.5 Real GDP growth (%) – Eastern Europe

	2014	2015f	2016f
Czech Republic	2.0	2.5	2.7
Hungary	3.6	2.7	2.3
Poland	3.3	3.5	3.5
Romania	2.9	3.0	3.3
Russia	0.6	-4.0	0.2
Turkey	2.9	3.1	3.7
Ukraine	-6.8	-6.4	1.7

Source: Consensus Economics (April 2015)

Going forward, lower oil prices are a tailwind for the oil-importing Central and Eastern European countries. Most of them will see their economic growth improve on the back of strengthening domestic demand and low inflation. Hungary is an exception with growth projected to soften due to lower investment growth and less supportive fiscal conditions. Meanwhile in Turkey, a sharp depreciation of the currency amid rising concerns about its economic policy, is partly offsetting the positive impact of lower oil prices. Relatively high external financing needs continue to leave Turkey vulnerable to shocks.

Table 3.6 Inflation (%) – Eastern Europe

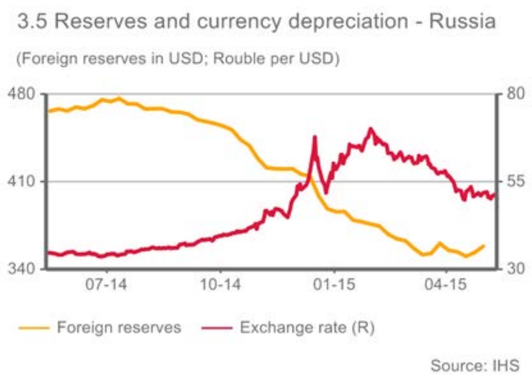
	2014	2015f	2016f
Czech Republic	0.4	0.3	1.7
Hungary	-0.3	-0.1	2.3
Poland	0.0	-0.4	1.7
Romania	1.1	0.8	1.6
Russia	7.8	12.2	10.1
Turkey	8.9	6.5	6.6
Ukraine	12.1	32.7	14.2

Source: Consensus Economics (April 2015)

Spillover effects of the Russia-Ukraine conflict are felt most in the Commonwealth of Independent States (CIS) countries, which have closer links to Russia. Armenia and Belarus will enter recession as a result. Although less exposed to Russia, the steep fall in oil prices and the depreciation of the rouble is posing a challenging environment for Azerbaijan and Kazakhstan. Their currency pegs have come under severe pressure. Azerbaijan was forced to devalue the manat by 34% against the US dollar in February. Both countries are however in good positions to deal with shocks considering high official reserves, including sovereign wealth funds.

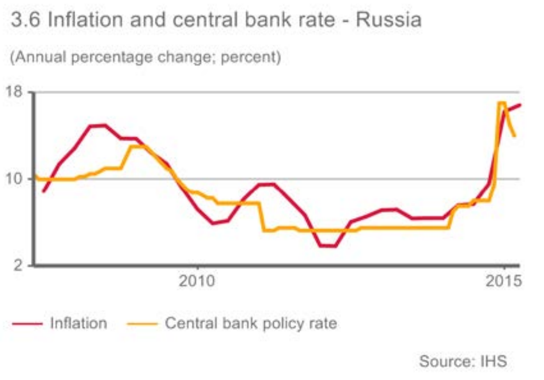
Russia: oil price decline comes at a very bad moment

While there has been much talk of recession, given the international sanctions imposed by the US and the EU, and the declining oil price, Russia has continued to grow in 2014, although at a marginal pace of 0.6% (2013: 1.3%). Support came from private consumption which grew 0.6%, though also significantly lower than in 2013. Unemployment was even at a record low of 5.2%. Net exports contributed as exports were up and imports down, pushing the current account further into surplus (3.2% of GDP). The government also managed to move the budget balance into a marginal surplus. Stock variables still indicate financial strength, with external debt remaining very low at 33% of GDP and public debt at 8.7% of GDP at the end of 2014. Foreign currency reserves at the central bank stood at USD 386 billion by the end of 2014 or a comfortable level of almost 11 months' import cover.



There were still clear signals that the economic situation was deteriorating rapidly, especially during the second half of 2014. Gross investment plummeted compared to 2013. That highlighted the major underlying weakness of the Russian economy that was stressed in previous Economic Outlooks: a chronic lack of investment. Foreign currency reserves have been reduced by more than 20% during 2014 as Russia's central bank attempted in vain to halt the fall of the rouble. The rouble lost more than 60% of its value against the dollar, pushing up inflation from 7.7% to 16.2% in the last six months of 2014. International sanctions have troubled the currency just as the fall of the oil price has. The Moscow Stock Exchange fell by more than 60%, highlighting a severe loss of confidence.

The international sanctions are biting because they precisely hit Russia's weak spot: its lack of investment. During the year, the US and the EU have stepped up their pressure on Russia to withdraw from the conflict in Ukraine. The biting element of the sanction is that they target defence and energy firms, in order to limit the military arsenal as well as future economic growth. These firms, which include Gazprom, Lukoil and Rosneft, now face severe restrictions in their access to foreign technology and foreign finance, as the banking sector is also included.[16] With access blocked to US and EU energy technology, and without the means to purchase it elsewhere (as financing is constrained), investment by Russian firms, especially in the energy sector, is in jeopardy. Mounting capital outflows have exacerbated the problem. The level of outflows in 2014 reached USD 130 billion, twice the level of 2013. Critically, non-residents have been withdrawing funds from Russia – a phenomenon not seen since 2008.



Still, with international sanctions alone, the Russian economy may have had been able to avoid a recession, banking on strong support from private consumption. But the oil price decline did not allow that. Indeed, the greatest threat to the Russian economy is a persistent drop in the oil price, according to the IIF.[17] Export revenues from energy were particularly hit. Government revenues came under pressure as well, though tax revenues in roubles are boosted, mitigating the impact.[18] Most importantly, however,

[16] Inclusion of the banking sector is crucial to prevent lending to sanctions-hit firms after banks have tapped the international financial market.
[17] IIF "Emerging Europe: Living with Geopolitical Tensions", October 7, 2014.
[18] This is because the energy firms indeed have lower USD revenues as the oil price is lower, but the depreciated rouble in turn boosts their rouble revenues. Those rouble revenues are the basis for tax levy in Russia.

the rouble has depreciated. Initially, the Central Bank of Russia attempted to stem the depreciation through foreign currency interventions. But when more than USD 100 billion of foreign reserves, or 25%, was spent to no avail, the rouble was left to float. The central bank subsequently raised the policy rate, in a number of stages, to 17.5%. Depreciation is a major issue as it exacerbates Russia's already high inflation rate and imports become more expensive. High levels of inflation hit private consumption,[19] which was the major supporting pillar of economic growth.

The result is that the Russian economy is now facing a storm. As we see a frozen conflict in the Ukraine, the easing, let alone lifting, of international sanctions is not in the cards. Being hit by international sanctions and a low oil price of USD 58 per barrel, the economy is forecast to shrink 4.1%. Investment is expected to again be hit, by another 10.5% reduction, due to the factors summed up above: lack of confidence, restricted availability of technology, international sanctions and high interest rates restraining liquidity in the banking system and thus lending. Household consumption will indeed not be able to support the economy. The mounting level of inflation, eating into purchasing power and already weak confidence, should cause a decline of more than 5%. The government is unlikely to come to the rescue and fiscal stimulus should be curtailed by demand from the private sector for bail-outs. Some relief may come from the external sector as the weak rouble will boost exports in the non-energy sectors and leading to a contraction of imports by 30% year-on-year, keeping the current account in surplus. After this storm, some recovery will be in sight in 2016 on the back of a steadily rising oil price.

Ukraine: destabilised

Ukraine's economy is in tatters. A 6.4% contraction in GDP is expected for 2015, after the sharp contraction of 6.8% in 2014. Inflation grew 45.8% in March 2015 compared to March 2014. Naturally, Ukraine's trade with Russia is now limited and its main trade partner is the European Union. Two major events have occurred since the previous Economic Outlook: a ceasefire has been agreed upon, and Ukraine has received support (twice) from the IMF to stabilise its balance of payments, currency and public finances. The ceasefire has been instated since mid-February, but tensions remain high in Eastern Ukraine.

Capital flight drove an extended fall in the hryvnia, making a balance of payments crisis (in which a country is no longer able to repay its debts) imminent. The IMF has now committed to providing Ukraine with an extended arrangement of USD 17.5 billion for four years (after having already been committed to a stand-by arrangement) to avert the crisis. This disbursement, together with a strong rise in interest rates, has halted the fall in the hryvnia. Nonetheless, the hryvnia has depreciated 65% since February 2014.

The IMF has laid down a comprehensive programme to which the government must adhere to help Ukraine in the long run. Nevertheless, this has a sizeable impact now: energy tariffs are increased, banks are set to be restructured, state-owned companies will receive governance reforms and the legal system will receive an overhaul to combat corruption and strengthen the rule of law. Risks to the programme are very high due to the weak state of the Ukrainian economy, ongoing skirmishes in the east and the presence of vested interests.

Turkey: rebalancing economy, deteriorating policies

Turkey's prospects are mixed. Being an oil importer, its economy should profit from lower oil prices, which should help boost private demand, lower inflation and narrow its persistently large current account deficits. But Turkey remains one of the most exposed economies to a normalisation of US monetary policy and shifts in market sentiment. This is due to a high stock of portfolio inflows, persistently high external financing needs, relatively low buffers and rising policy risks.

In the past months, the positive impact of falling oil prices on market sentiment has been outweighed by rising concerns about the central bank's independence. As a result, consumer confidence remains very low and business confidence has plunged with its Purchasing Managers Index (PMI) currently pointing at contracting industrial production. Moreover, the Turkish lira was one of the worst performing currencies, depreciating by over 20% between July 2014 and the end of April. This is adding to credit risks, particularly in the corporate sector.

[19] The higher interest rate on rouble lending further restrains growth through the investment channel.

Table 3.7 Key data Turkey

	2014	2015f	2016f
Real GDP (% change)	2.9	3.1	3.7
Inflation (% change)	8.9	6.5	6.6
Private sector credit (% change)	19	17	17
Current account (% GDP)	-5.7	-4.6	-4.9
Portfolio invest. stock (% reserves)	151	147	144
Gross external debt (% GDP)	52	58	60
Net external debt (in % exports)	111	117	124
External financing need (% reserves)	203	176	190

Source: Consensus Economics, Atradius (April 2015)

3.7 Turkish lira vis-a-vis USD

Source: IHS

These concerns are fuelled by the central bank's decision to cut interest rates ahead of the general election in June by a cumulative 75 basis points to 7.25% through January and February even though consumer inflation remains well above the official 5% medium-term target (7.6% year-on-year in March). Accompanying public statements by President Recep Tayyip Erdogan suggesting that interest rates are not being cut fast enough because of conspiracies added to the concerns. Political noise is expected to continue after the elections and will keep Turkey sensitive to shifts in market sentiment. Although they will most likely be won by President Erdogan's Justice and Development Party (AKP), the party seems unlikely to reach the three-fifths majority needed to change the constitution, as aimed by President Erdogan, to a presidential system, giving strong powers to the president as both head of state and government.

MENA: double whammy

Next to increasing geopolitical risks, the Middle East and North Africa (MENA) are also facing the impact of the lower oil price. The sharp decline in the oil price is hurting the oil-producing countries through government finances and declining export revenues. Most oil-exporting countries will show high budget deficits and current account deficits. Due to the unrest since the Arab Spring, most countries in the region have significantly increased their government spending. Salaries and subsidies were increased and investment rose to diversify the economy and create jobs. As a consequence, their dependency on high oil prices increased sharply over the previous years leading to a high fiscal break-even oil price. Although these oil-producing countries are vulnerable to the lower oil price and the impact is high they are able to withstand a period of low oil prices due to their enormous sovereign wealth funds and reserves which serve as buffers. The most vulnerable countries in this region are Iraq and Bahrain as these countries have relatively low buffers.

Table 3.8 Real GDP growth (%) – MENA

	2014	2015f	2016f
Egypt	2.1	4.3	3.7
Morocco	2.5	4.7	4.8
Qatar	6.2	6.1	6.6
Saudi Arabia	3.6	2.2	3.0
Tunisia	2.3	3.3	4.5
UAE	4.2	2.6	3.3

Source: IHS (April 2015)

The rise of the Islamic State (IS) in Syria and Iraq has had a large impact on the region. Sectarian tensions have risen and sharpened divisions in the region, especially between the traditional rivals Saudi Arabia and Iran. In the past years, Iranian influence has increased in the region, most visibly in Iraq where Iranians are advising the Iraqi government and army to assist them in the fight against IS. At the same time, Saudi Arabia is trying to avert Iranian influence in other countries as seen in Yemen. With the appointment of two hardliners as new heirs to the throne, Saudi Arabia is reinforcing its more assertive tone in the region. Geopolitical risks are expected to increase in the region. This together with the lower oil price will result in moderate growth figures.

Sub-Saharan Africa: lower commodity prices take their toll

Sub-Saharan Africa feels the impact of lower commodity prices. Angola and Nigeria are oil producers and are currently heavily affected by the low oil price. Other commodities like copper, iron ore and gold have not collapsed but have gone through a more gradual decline over the last years, while a sharp recovery of these metals is not expected. Africa's most advanced economy South Africa is persistently struggling with many structural challenges which negatively affect economic performance.

Table 3.9 Real GDP growth (%) – Sub-Saharan Africa

	2014	2015f	2016f
Ghana	4.3	3.0	6.0
Kenya	5.8	6.6	6.0
Nigeria	6.0	4.1	5.4
South Africa	1.5	3.1	2.0

Source: IHS (April 2015)

Nigeria: a smooth transition

A surprise for many was the smooth transition of power when Muhammadu Buhari won the presidential elections earlier this year. Improving the security situation and fighting corruption are a priority for the new government. In the past weeks, some successes have been booked in the fight against Boko Haram with the help of Chad, Niger and Cameroon. The new government faces some challenges this year. It has to deal with the impact of the lower oil price on its economy. Although the economy itself is quite diversified, and economic growth is driven by a dynamic non-oil sector, its government finances and export revenues are very dependent on oil. As a consequence a larger deficit on the budget balance and a deficit on the current account will be shown. Through lower government expenditure and investments, economic growth should decelerate to 4.3% this year.

South Africa: fixing the light

The downturn of the global commodity cycle has had mixed results for South Africa. As a major exporter of metals and diamonds, its exports are hurt by the relatively low prices. However, South Africa benefits from the low oil price since the country has to import all of its fuels. The country is plagued by structural electricity shortages, soured labour relations and, most recently, violent clashes between South Africans and illegal immigrants. The violence confirms South Africa's reputation as a country that struggles with structural law and order problems. The commissioning of the first turbine at the newly built Medupi power station is scheduled for the second half of 2015 and this will somewhat aid in alleviating the persistent power shortages, which is essential for South Africa's energy-intensive mining and automotive industry. The Karoo shale gas project, until recently regarded as a potential game-changer for South Africa's domestic energy supply, has been delayed. The newest estimates of the gas reserves are much smaller than previously expected. The economic growth prospects for South Africa during 2015 and 2016 are mediocre with an expansion of 3.1% forecast this year but only 2.0% growth in 2016.

4. Implications for the insolvency environment

Insolvency environment improving

Insolvencies remain high on the aggregate level in advanced economies, but 2014 was marked by clear improvements. 18 countries experienced a decline in the number of business bankruptcies, while four countries, however, experienced an increase: Austria, France, Greece and Italy.

Insolvencies expected to go down further in 2015

The insolvency environment across advanced markets is expected to improve further. All eurozone countries are expected to see a stable or falling number of insolvencies in 2015. Of the 22 markets covered, insolvencies are expected to increase only in Norway. Norway's economy is highly dependent on its large oil sector which is under pressure due to the lower oil price. For the other countries, economic conditions have generally improved over the year. The strongest improvement is expected in Spain (-20%), the United States (-16%) and the Netherlands (-15%). Nonetheless, the number of insolvencies remains high despite the large decline, especially in the Eurozone.

Some exceptions remain. Italy has not managed to emerge from its latest recession in 2014, although growth has improved (from -1.5% to -0.4%) and is expected to reach a positive figure in 2015. Switzerland is expected to see its modest growth restrained as a result of abandoning its currency's peg to the euro. Finally, Norway's growth is expected to contract as a result of the negative oil price shock. New Atradius insolvency forecasts for 2015 among a selection of countries are presented in Table 4.1.

Level of insolvencies remains high

The insolvency growth forecasts presented in Table 4.1 show that 2014 has seen less insolvencies in the 22 markets covered than 2013 and a further decrease is expected in 2015. Nevertheless, the number of business failures remains high. Insolvency levels have reached record highs in the past years and the decreases in 2015 will not undo the former rise. For this reason, the forecast improvement is best viewed in a longer-term perspective.

Chart 4.2 shows aggregate insolvency levels indexed for 2007, making clear that the number of business failures is still high. There are two exceptions: the Asia-Pacific region, where the level of insolvencies has been below the level of 2007 since 2010, and the United States, where the level of insolvencies has finally dropped below 2007 levels. We expect insolvencies to decrease across all reported regions in 2015. It is encouraging to see that there is a distinct fall in insolvencies in the eurozone periphery. The level, however, remains extremely high.

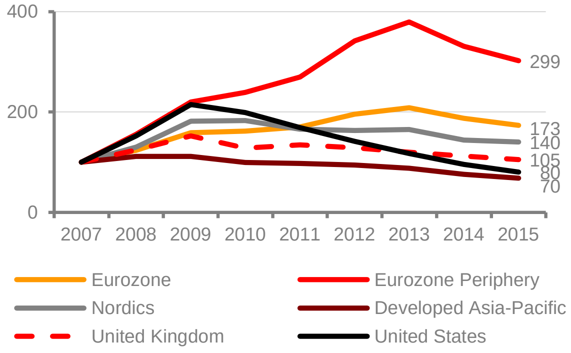
Table 4.1 Insolvency growth (% per annum)

	2013	2014	2015f
Australia	4	-22	-10
Austria	-10	-1	-9
Belgium	11	-9	-11
Canada	-2	-2	0
Denmark	-10	-20	-3
Finland	11	-11	-12
France	2	0	-2
Germany	-8	-7	-5
Greece	10	3	0
Ireland	-19	-15	-10
Italy	16	10	0
Japan	-11	-10	-10
Luxembourg	2	-20	0
Netherlands	10	-19	-15
New Zealand	-13	-7	0
Norway	20	-5	6
Portugal	8	-9	-6
Spain	13	-30	-20
Sweden	5	-7	-7
Switzerland	-5	-7	0
United Kingdom	-7	-6	-6
United States	-17	-19	-16

Source: National bureaus, Atradius Economic Research

4.1 Global insolvency developments

(Index, 2007 = 100)



Source: Atradius Economic Research

The eurozone has been slower to revert to 2007 levels than other advanced economies. The United States saw a steep increase until 2009. Since then, the insolvency rate has been steadily going down. The UK also saw a rise leading up to 2009, though not as steep as in the US, after which the level has been dropping except for a slight surge in 2011.

The Nordic countries together register a 44% higher insolvency level than in 2007. The level has decreased gradually since 2011, but economic setbacks in Norway may result in an increase in 2015.

As mentioned, insolvencies in the eurozone had continued to rise steadily since 2007. Despite the improvement in 2014, the level of insolvencies is still 87% higher than in 2007. The poor insolvency dynamics in the eurozone aggregate have mainly been driven by the high insolvency levels in the eurozone periphery, where insolvencies are still more than three times higher than in 2007.

Insolvencies: level and trend

A schematic overview of the insolvency situation in advanced markets is illustrated in Figure 4.1. All countries expected to see deterioration in their insolvency environment this year are to be found in the top segment of the grid. As previously mentioned, Norway is the only country in which insolvencies are expected to increase in 2015. The bulk of countries included in our forecasts are expected to display improving insolvency developments (i.e. a drop in insolvency of more than 2%).

Figure 4.1 Insolvency matrix 2015

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

Source: Atradius Economic Research

The horizontal axis in Figure 4.1 depicts the absolute level of defaults – whether the frequency of defaults in a country is assessed as low, average or high – in a cross-country comparative context. As such, all countries perceived to be markets characterised with comparatively high default frequencies are to be found in the right-hand segment. France, Greece, Italy and Luxembourg are expected to experience a stable level of insolvencies at high default levels compared to the other surveyed countries.

This classification provides a high-level overview of trends in insolvency risk across some of our most important markets for short-term credit insurance. This summary suggests that we may expect frequency risk to decrease in five markets currently characterised by high default rates: Belgium, Denmark, Ireland, Portugal and Spain.

Credit risk developments for large firms

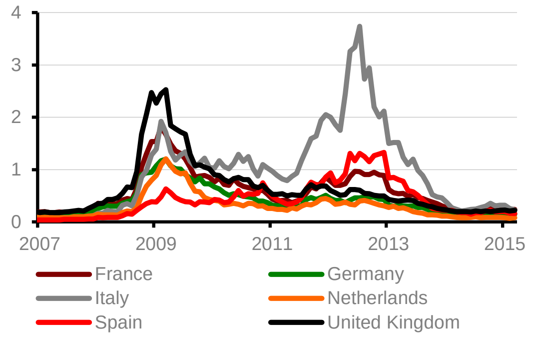
Default expectations among large firms have relaxed further through 2014. Stabilisation is evident as the expected default frequencies (EDFs)[20] have converged and have lost much of their volatility. Indeed, they have not been as calm as they were prior to 2007. The expected default rate is, however, still higher than in 2007 reflecting the still difficult business climate. In

[20] 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.

addition, the EDF figures are flattered by the expansionary monetary policy of the European Central Bank (ECB) which has pushed up equity prices and lowered financial market risk premia.

4.2 Median EDF - Europe

(Default risk 12 months ahead, percent)

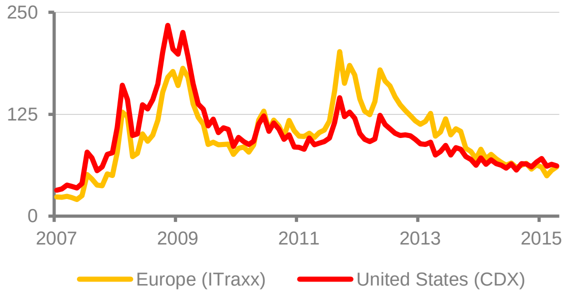


Source: Moody's KMV

Parallel to the convergence of the EDFs, credit default swap (CDS) spreads, an external benchmark for the degree of perceived credit risk, have continued to narrow over the past year (see Chart 4.4). In 2014, and for the first time since the middle of 2010, the default premium for European investment grade credit has converged with US default premia. Still, the current CDS levels are higher than they were pre-crisis. This means that the perceived default risk is still higher, this perception is of course staved off by reality as default levels are still much higher than they were pre-crisis. In addition, the actual default rate measured by rating agency Fitch rose slightly in 2014 to 0.4% and was marginally higher than in 2007 when the rate was 0.37%.

4.3 Investment grade credit risk

(CDS spreads, 5-year segment)



Source: Bloomberg; Atradius

Emerging market business failures

For emerging markets, the picture is mixed. Many emerging markets suffer from lower natural resource prices and weak domestic policies which suppress economic growth in emerging markets as disscussed in Chapter 3. Of the largest emerging markets, Russia and Brazil will both see a strong increase in insolvencies this year as financial conditions tighten and their economies contract. China can also expect a rise in insolvencies, despite its still high economic growth rate. Companies face a change in the structure of the economy and a change in funding conditions. This will inevitably lead to shrinking business opportunities in some sectors while possibilities open up in others. That will push up defaults in the shrinking sectors. The construction sector is one which faces higher insolvencies as real estate prices have been falling and investment in large projects by local governments cut. This will also impact other industries that supply to the construction sector. Of the large emerging markets, only India can expect insolvencies to fall as its economic growth accelerates and foreign investment flows in.

Table 4.2 Insolvency growth

	2015f
Brazil	Strong increase
Russia	Strong increase
India	Decrease
China	Moderate increase

Source: Atradius

Loosening credit conditions

According to the April 2015 bank lending survey of the ECB, improvements in lending conditions continue to support the growth of lending in the eurozone, particularly for enterprises. The second quarter of 2014 brought the first easing of credit standards for businesses in the eurozone since 2007. Since then, conditions have continued to ease as banks found more room on their balance sheet to place loans and showed increasing risk tolerance.

Of course, the level of credit standards is still tighter than before 2007. In addition, the loose monetary policy of the ECB makes a further easing likely, and this has the potential to suppress insolvency growth.

Bank lending conditions in emerging economies continued to tighten in the fourth quarter of 2014 according to the IIF. A tightening of corporate funding conditions was caused by contagion from the Russian crisis and the oil price drop in December after two quarters of moderate relaxation. In addition, domestic funding conditions tightened in Asia, Eastern Europe and Sub-Saharan Africa. By region, overall bank lending conditions have eased in Eastern Europe, the MENA region and Sub-Saharan Africa but continued to tighten in Asia and Latin America.

Risks to the insolvency projections

The outlook for the business climate across the globe is mixed. Business conditions remain difficult in the eurozone despite the 2014 improvement in some markets and the predicted improvement in most member states this year. The improvement also hinges on continued support by the European Central Bank and the stability of the banking system in order to further ease the tight credit conditions. A return of stress in the banking sector could thus hamper the recovery in the business climate. In addition, economic growth is picking up but remains vulnerable to setbacks. A minor shock may be sufficient to push a number of eurozone states back into recession and send the number of insolvencies up again. In the United States, the change in monetary conditions may adversly impact lending conditions while the positive forecast of economic growth may turn out to be unachievable. This would push up insolvencies and mitigate our forecast for a meaningful fall in insolvencies. But there are also upside risks. Most notably, some eurozone member states such as Italy and France may experience more benign insolvency conditions than currently foreseen if the economic recovery gains further traction as reform measures are implemented.

For emerging markets, the business climate outlook is mixed. Uncertainty over domestic political policies and their impact on the economy may lead to higher insolvencies. The managed slowdown of the Chinese economy still risks unwinding faster than planned. That may not only push up insolvencies in China, but also affect other emerging markets. Financial conditions in many emerging markets are also dependent on monetary policy in the United States. Too rapid an increase in the US interest rates could spur a large move to US bonds and equities by international investors as the return rises which may imply an outflow of funds from emerging markets. This would hurt financial and economic conditions in the affected emerging countries sending insolvencies higher. Taking all of this into account, we believe the most likely outlook is of a modest global expansion this year and over the next, where the business climate remains difficult in many countries, though the close monitoring of the aforementioned risks must continue.

Appendix I: Recent publications

Economic research notes published recently

Iran: potential opportunities and risks, April

Cheap oil: the new normal, April

Weakening euro's effect on the UK market, March

Insolvency Forecasts, March

Most vulnerable countries to Chinese economic downturn, February

Russia update – Lower oil price will take its toll, February

Ending the Swiss franc ceiling, January

The benefits of a falling euro, January

Impact of a Greek euro exit, January

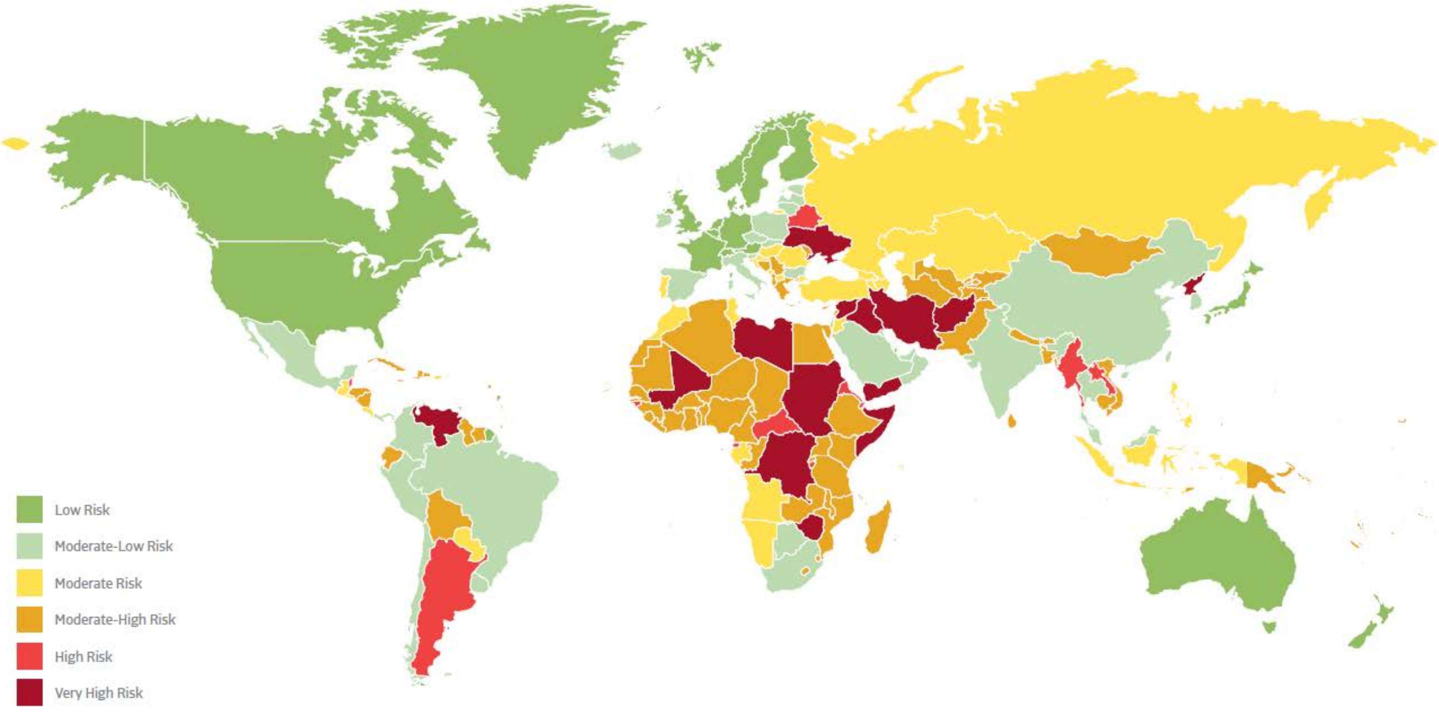
Lithuania joins the euro, January

Cheap oil. Good news – for most, December

Economic Outlook, December

Please see the www.atradius.com website for an overview of all Atradius Economic Research publications.

Appendix II: Atradius Risk Map



The Atradius Risk Map gives an overview of the level of risk associated with countries worldwide. This map has been created by our Economic Research team and drawn from a range of sources. This map is provided for information purposes only and is not intended as a recommendation as to particular transactions, investments or strategies in any way to any reader. For our full disclaimer and further information on our Risk Map, please visit: www.atradius.com/RiskMap.

The Atradius Risk Map is updated every month. For the latest version of the map please visit www.atradius.com/riskmap.

Appendix III: Forecast tables

Table A1 Macroeconomic headline figures - Developed markets

	GDP growth (%)			Inflation (%)			Budget balance (% of GDP)			Current account (% of GDP)			Export growth (%)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Australia	2.7	2.6	2.9	2.5	2.0	2.7	-2.5	-2.4	-1.5	-2.9	-3.2	-3.1	6.7	3.5	4.0
Austria	0.4	0.8	1.7	1.6	1.0	1.9	-2.4	-1.5	-1.2	0.8	1.7	2.0	1.5	2.5	5.3
Belgium	1.0	1.2	1.7	0.3	-0.2	0.6	-1.8	-1.3	-1.2	2.0	2.2	2.2	3.3	2.2	4.6
Canada	2.5	1.9	2.2	1.9	1.3	2.2	-1.6	-1.5	-1.2	-2.2	-3.5	-2.0	5.4	3.9	5.8
Denmark	1.0	1.8	2.1	0.6	0.1	0.9	-1.1	-1.6	-1.3	6.9	7.1	7.0	2.9	3.0	4.8
Finland	-0.1	0.5	1.2	1.0	0.3	1.1	-3.2	-2.9	-2.6	-1.2	-0.4	-0.4	-0.4	2.5	3.5
France	0.4	1.1	1.5	0.5	-0.1	1.4	-4.0	-3.8	-3.5	-1.3	-0.8	-0.9	2.9	4.4	3.5
Germany	1.6	2.1	2.2	0.9	0.6	1.9	0.6	0.3	0.4	7.5	8.0	7.9	3.8	6.5	5.3
Greece	0.7	0.3	2.2	-1.3	-1.0	0.7	-1.0	-1.7	-1.1	0.9	1.5	1.3	8.8	0.7	3.3
Ireland	4.8	3.6	3.7	0.2	0.0	1.5	-3.7	-2.8	-1.9	4.8	4.5	4.5	12.6	7.2	3.9
Italy	-0.4	0.6	0.9	0.2	-0.1	0.5	-4.0	-2.9	-2.3	3.0	4.2	1.8	2.4	3.3	2.3
Japan	-0.1	0.9	1.4	2.8	0.6	1.4	-8.4	-7.4	-6.0	0.0	0.0	0.1	8.2	8.3	5.9
Luxembourg	3.0	3.3	2.9	0.6	0.9	2.3	0.6	0.2	0.1	5.2	6.7	6.5	2.5	4.1	4.5
Netherlands	0.9	1.8	2.2	1.0	0.3	1.3	-2.5	-2.2	-1.7	11.5	11.5	10.8	4.0	4.3	5.0
New Zealand	3.0	3.4	2.8	1.2	1.3	2.5	-1.8	-0.7	0.3	-3.6	-4.9	-4.3	2.7	6.3	4.0
Norway	2.2	0.6	0.6	2.0	1.7	2.0	9.3	4.8	4.8	6.6	6.9	7.8	1.7	3.5	2.5
Portugal	0.9	1.6	1.7	-0.3	0.0	1.1	-4.5	-2.9	-2.6	0.6	1.2	1.0	3.4	4.0	3.5
Spain	1.4	2.6	2.5	-0.2	-0.9	0.7	-5.8	-4.4	-3.6	0.1	1.2	1.2	4.2	5.3	5.1
Sweden	2.3	2.3	1.9	-0.2	0.0	0.9	-2.0	-1.6	-0.6	6.1	5.4	5.0	3.5	2.5	3.0
Switzerland	2.0	0.5	0.7	0.0	-1.2	-0.4	0.1	-0.5	-0.7	7.0	4.9	5.5	3.5	-1.1	2.0
United Kingdom	2.8	2.6	2.8	1.5	0.3	1.6	-5.4	-4.2	-3.1	-5.5	-4.4	-3.5	0.6	6.6	5.9
United States	2.4	2.8	2.7	1.6	-0.4	2.1	-4.1	-3.9	-3.0	-2.4	-1.9	-2.1	3.2	2.2	4.2
Eurozone	0.9	1.6	1.9	0.5	0.1	1.3	-2.5	-2.1	-1.7	3.4	4.0	3.5	3.8	4.8	4.4
European Union	1.4	1.9	2.1	0.6	0.1	1.4	-2.9	-2.5	-2.0	1.9	2.3	2.1	3.7	4.9	4.7

Source: IHS

Note: IHS forecasts for 2015 and 2016. 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. (%)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Australia	2.5	3.6	3.8	-2.1	-1.7	1.6	2.0	1.7	0.8	2.8	4.1	4.1	4.2	2.2	2.9
Austria	0.1	0.5	1.3	0.0	-0.2	3.7	0.5	0.9	1.0	-0.4	0.9	0.0	-0.3	2.0	2.5
Belgium	1.0	1.9	1.7	4.8	0.7	2.7	0.4	1.1	0.6	0.0	1.8	1.9	0.9	2.3	2.5
Canada	2.8	2.1	2.4	0.4	-1.2	-0.8	0.3	1.7	1.9	2.7	-2.0	0.4	4.1	1.3	1.7
Denmark	0.4	1.7	1.6	2.9	4.4	4.6	1.4	1.5	1.6	-0.4	1.2	0.6	0.9	1.7	1.6
Finland	-0.2	0.2	1.0	-5.1	0.1	3.1	0.2	0.4	0.5	-2.1	1.0	1.9	-2.6	1.2	2.6
France	0.6	1.4	1.6	-1.6	-0.3	2.0	1.9	1.1	1.1	0.8	2.0	1.0	-1.0	1.5	1.5
Germany	1.2	3.0	2.1	3.4	4.8	5.8	1.1	1.5	1.4	1.3	3.3	0.1	1.5	3.1	2.6
Greece	1.4	1.7	1.5	3.0	0.2	3.4	-0.8	-5.3	0.4	0.2	1.2	1.2	-2.2	0.8	2.1
Ireland	1.2	2.5	2.7	11.7	6.2	3.7	0.2	-0.2	1.2	6.2	6.7	3.4	19.9	3.0	1.7
Italy	0.3	0.9	1.0	-3.2	0.0	1.1	-1.0	0.3	0.4	-1.3	0.3	1.3	-0.7	0.8	1.5
Japan	-1.2	0.7	1.4	2.6	0.2	2.7	0.3	0.7	0.4	-1.1	2.5	2.2	2.1	2.3	4.4
Luxembourg	2.7	3.0	2.6	3.6	6.7	6.0	3.2	1.7	2.0	8.5	5.6	0.3	11.4	3.7	3.1
Netherlands	0.1	1.3	1.3	3.5	6.0	2.5	-0.3	0.9	2.3	-0.5	1.7	0.7	-2.9	1.9	2.0
New Zealand	3.2	3.3	2.4	8.7	7.2	0.2	3.6	2.0	1.8	2.7	4.6	2.8	2.1	3.0	2.2
Norway	2.2	1.8	1.9	1.2	-6.2	-3.6	2.5	3.5	3.0	1.4	1.4	0.9	3.6	0.4	0.8
Portugal	2.1	1.8	1.3	2.3	2.6	3.2	-0.7	0.0	0.9	-1.5	0.9	1.3	1.0	2.0	2.6
Spain	2.4	2.9	2.3	3.4	4.6	3.3	0.1	-1.4	-1.1	0.6	3.1	2.3	1.2	1.3	1.3
Sweden	2.4	2.2	1.8	6.6	5.6	3.9	2.0	1.9	1.4	3.6	4.1	2.7	-1.6	0.5	2.2
Switzerland	1.0	1.1	0.6	1.7	-0.7	1.3	1.1	2.6	1.0	0.1	0.2	0.8	1.5	-0.3	1.0
United Kingdom	2.5	2.8	3.1	7.8	3.4	6.2	1.7	0.7	0.4	1.6	3.0	3.5	1.6	1.3	2.6
United States	2.5	3.2	3.1	3.9	4.2	6.5	0.4	0.7	0.4	2.3	2.0	2.9	4.2	1.9	2.9
Eurozone	1.0	2.0	1.7	1.0	2.4	3.4	0.7	0.7	0.9	-	-	-	0.4	1.9	2.0
European Union	1.4	2.2	2.1	2.5	2.8	3.9	1.0	0.8	0.9	-	-	-	0.8	2.0	2.3

Source: IHS

Note: IHS forecasts for 2015 and 2016. 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 A3 Macroeconomic headline figures - Emerging markets

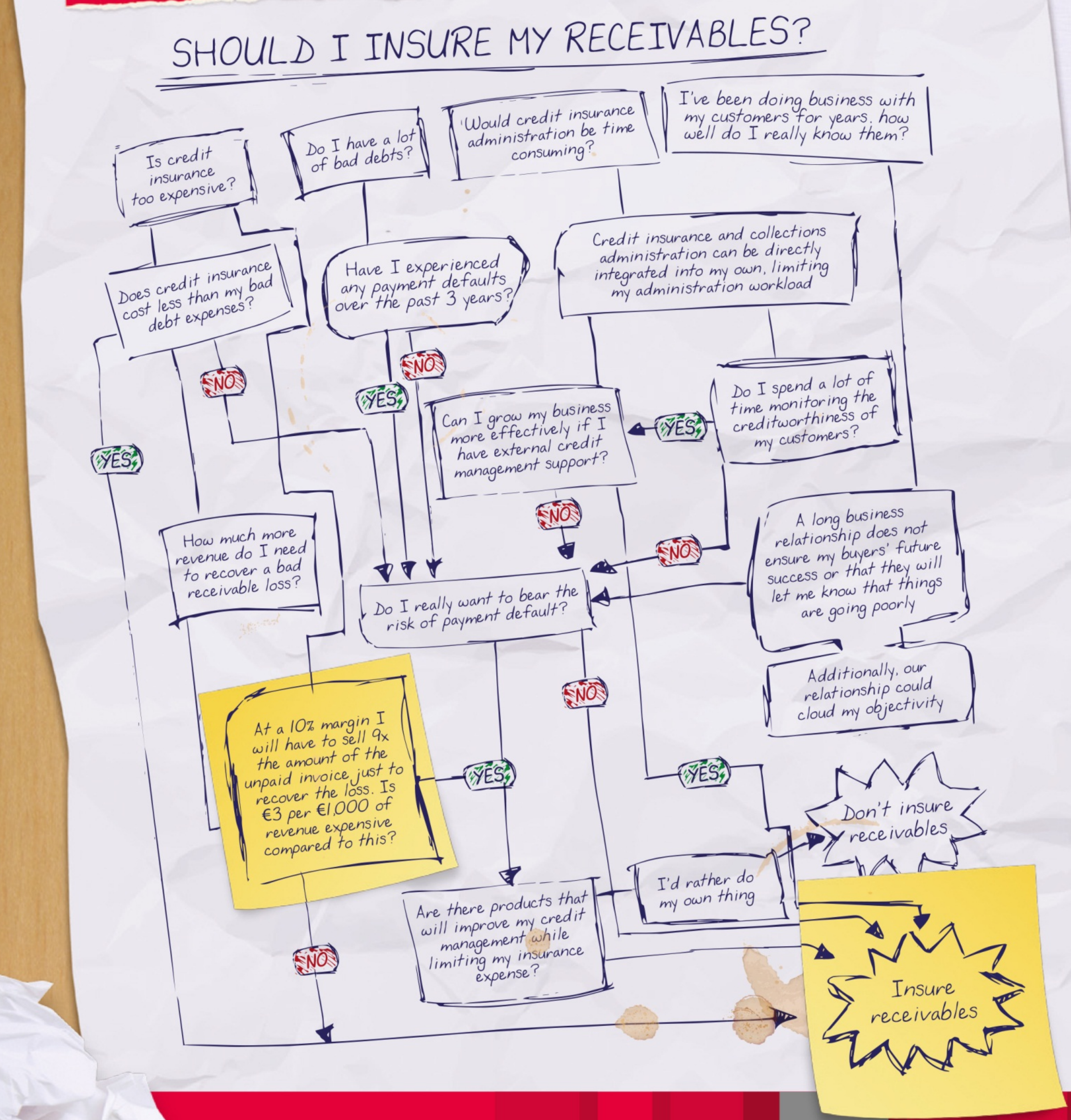
	GDP growth (%)			Inflation (%)			Current account (% of GDP)			Private cons. (%)			Export growth (%)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Asia Pacific*	6.0	5.7	5.9	3.0	2.1	2.6	2.0	2.4	2.2	5.3	5.7	5.8	4.1	5.4	6.5
ASEAN	4.4	4.8	5.1	4.1	2.9	3.5	3.4	3.5	3.1	4.5	4.9	4.9	3.4	4.2	5.2
China	7.4	6.5	6.5	2.0	1.3	1.6	2.1	3.1	3.2	6.8	6.6	6.2	5.9	6.8	6.9
Hong Kong	2.3	2.8	3.2	4.4	3.5	2.8	2.1	2.1	2.7	2.7	3.0	3.2	0.9	4.5	5.0
Taiwan	3.7	3.7	3.8	1.2	0.0	0.9	12.3	13.1	11.3	3.0	3.0	3.0	5.7	5.1	5.7
India	7.4	7.8	8.1	7.2	5.2	5.8	-1.3	-1.5	-2.3	7.1	7.2	8.8	0.9	8.5	9.2
Singapore	2.9	3.4	4.0	1.0	0.6	2.9	19.1	18.7	17.6	1.7	3.5	4.7	2.1	3.0	4.4
Latin America	0.8	-0.1	1.6	10.9	13.8	12.5	-3.2	-4.1	-3.8	1.4	0.8	2.1	-1.0	-1.4	2.2
Argentina	0.5	-1.4	2.0	21.4	30.2	28.9	-1.0	-1.8	-2.8	-0.5	-0.7	1.6	-8.1	-2.3	1.9
Brazil	0.1	-1.1	0.7	6.3	8.0	5.8	-4.2	-4.5	-4.0	1.1	0.3	1.8	-0.8	-3.8	3.0
Mexico	2.1	2.6	3.6	4.0	3.0	3.5	-2.4	-2.1	-2.3	2.0	2.7	3.7	7.3	4.8	4.6
Eastern Europe	1.8	-0.2	1.9	5.7	7.8	6.2	0.1	-0.4	-0.8	2.1	0.0	1.9	1.8	1.2	4.4
Czech Republic	2.0	2.8	3.1	0.4	0.3	1.8	0.6	-1.0	-0.9	1.7	2.5	2.8	8.8	5.0	7.0
Hungary	3.6	2.9	2.4	-0.2	-0.1	3.3	3.5	3.3	2.8	1.6	2.0	2.3	8.7	5.0	3.6
Poland	3.3	3.2	3.8	-0.1	-0.2	1.6	-1.4	-1.7	-1.9	3.0	3.0	3.8	5.6	5.4	5.1
Russia	0.7	-5.0	-1.4	7.8	14.4	10.4	3.3	4.0	2.8	1.6	-4.4	-1.8	0.2	-5.8	3.9
Turkey	2.9	3.3	3.7	8.9	7.2	6.4	-5.7	-5.9	-5.5	1.7	3.0	3.5	6.8	4.3	5.2
Africa	3.3	3.7	4.6	6.9	6.9	7.0	-4.8	-5.6	-4.9	3.1	2.9	4.2	-0.6	3.2	5.1
South Africa	1.5	3.1	2.0	6.1	4.8	5.8	-5.2	-4.6	-4.8	1.4	2.1	2.7	2.6	4.4	4.1
MENA	2.5	2.5	3.6	5.1	4.3	4.4	7.7	1.3	3.2	3.6	3.7	4.0	3.0	2.9	4.1
BRIC	5.5	4.6	5.5	3.9	3.8	3.3	1.0	1.7	1.6	4.9	4.2	5.2	3.9	4.8	6.7
World	2.8	2.8	3.3	2.9	2.1	3.0	-	-	-	2.4	2.9	3.2	3.5	4.1	5.1

Source: IHS

Note: * Excluding Japan

Note: IHS forecasts for 2015 and 2016. 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.

Don't overcomplicate your decision about whether to use credit insurance



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