no. 1193

Macroeconomic, Risk and Insolvency Outlook

Europe: still looking for a second wind

Euler Hermes Economic Research Department

Economic Outlook

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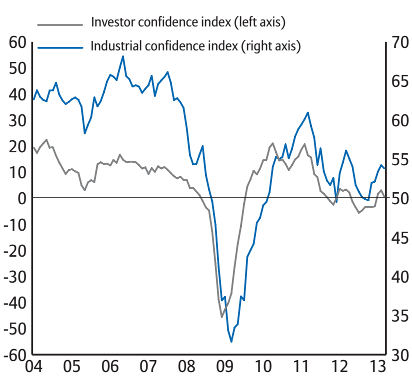
Editorial

The European Winter

World business cycle indicators



Sources: Markit, Sentix, Euler Hermes

The start to the year has been harsh in Europe. Winter has not wanted to give way to spring, as agreed, and the only positive from this chill is perhaps its contribution to eurozone growth: nearly one-tenth of a percentage point of GDP in 2013, according to our estimates. That's already something, isn't it? Economists love using climate metaphors to describe their forecasts: *"chill in consumption"*, *"investors get cold feet"*, *"clear skies ahead for the global economy"*, *"headwinds"*, *"clouds overhanging the West"*, etc. Myriad are the parallels between economic and meteorological hazards, so much have economies been navigating by sight of late. In 2010 the seasonal lexicon appeared with the oft-mentioned *"Arab Spring"*, which, it has to be said, subsequently turned into winter, summer, fall, and then spring once again. In fact, it seems that seasonal changes arise as rapidly as new policies for the Mediterranean periphery. In this economic outlook we provide our own contribution to this much-vaunted literature by building on the idea of a *"European Winter"* in light of the bad winds that continue to batter Europe without respite. There is a chill in consumption, investment is shaky, public spending is frozen, trade is bogged down, business lending has dried-up and governance is numb: the European crisis blizzard carries on. We thought we could see the first signs of spring, with the financial markets showing some green shoots, Frankfurt appearing to soften up – and then the snowstorm arrived (from Cyprus!), freezing over confidence and institutions in its path. The good news is that, while the eurozone remains in winter, the United States is in spring (a little wet, perhaps, but pleasant) meanwhile in large – and less large – emerging countries such as Brazil, Russia, India, China, Turkey, Mexico, and Indonesia, to name just a few, temperatures are warming… although without thawing the core. Any solutions? Europe needs to turn on the heater! So the metaphor is clear: expansionary monetary policy (OMT), joint fiscal and industrial policy, banking union, debt restructuring, and efficient use of new tools such as the EFSF and the ESM, among others. The time has come, we can wait no more. Even global warming may no longer be such a faithful ally, what with recent studies showing it may have even slowed. Does this mean climate change skeptics and euroskeptics are waging the same war? Whatever, roll on springtime… 2014!*_Ludovic Subran*

Overview

Europe: still looking for a second wind

Financial tensions eased between late 2012 and early 2013 on the back of improving outlook for the United States and Japan at end-2012 linked in the former to the lower than expected fiscal cliff and, in the latter, the introduction of more pro-growth monetary and fiscal policies. In addition, the eurozone sovereign crisis receded and emerging countries were much more resilient than expected. Nevertheless, Q1 2013 economic data continues to point to weak activity, largely due to the ongoing decline in production in the eurozone. Thus, global growth is expected to average +2.4% for the second consecutive year in 2013, undermined by persistently downbeat prospects in the eurozone, while the rest of the world is showing signs of resilience more than strong performances. In 2014, global growth should accelerate moderately to +3.2% on the back of an upturn in activity thanks to an economic recovery in the eurozone and more rapid growth in global trade. However, risks to our economic scenario remain skewed to the downside. In the short term, the risks are (i) political (particularly heavy political calendar in the eurozone) and geopolitical (in particular the intensification of the North Korean-South Korean conflict), and (ii) related to the sustainability of public debts in the eurozone. Last, in structural terms and looking further out, the risks are concentrated in macroeconomic fundamentals, where frailties have accentuated in both developed and emerging countries.

Overall, the financial climate improved between late 2012 and early 2013. Indicators of financial stress have improved since the second half of 2012 on the back of four factors in particular: the declining risk of a drastic adjustment in US public finances following the deal in late 2012 on the fiscal cliff, progress on the European crisis front, an improved economic outlook for Japan and better-than-expected performances from emerging countries, notably China.

Financial tensions have globally eased since late 2012. Overall risk aversion, as measured by the VIX index, has decreased by 50% since December 2012. Pressures on eurozone sovereign debts have also reduced. The 10-year yield spread between Greek government bonds and German bund fell below 1,000 bps in January 2012, for the first time in two years. Italian and Spanish rates have also eased significantly (more than 200 bps since peaking in July 2012).

This trend is due to the fact that (i) the risk of a drastic adjustment in US public finances has decreased following the final-hour compromise struck late in the year and the ongoing negotiations pointing to smaller budget cuts than previously envisaged. While the "sequester" is indeed under way (USD 85 billion in automatic cuts since the beginning of March), its effect remains small relative to the shock of the fiscal cliff (expiring tax exemptions, automatic budget cuts in the absence of agreement on the 2013 budget). The former is in fact estimated to shave -0.6 pp of GDP, as opposed to -2 pps in the case of the fiscal cliff.

(ii) Within the euro zone, progress has been made towards resolving the crisis. The Troika gave a favorable assessment of Greece, Portugal and Ireland and budgetary targets for the coming years have been relaxed. The principle according to which a country that fails to meet its targets because of a cyclical shock will not be punished appears on track to be adopted. Monetary policy remains expansionary and the ECB is firmly committed to supporting growth and the troubled countries (OMT) in the region. The banking union plan is on the right track, in particular the agreement on a single supervisory mechanism for the region's banks under the ECB surveillance.

(iii) Policy changes have improved Japan's growth outlook. The Shinzo Abe government has put in place a pro-

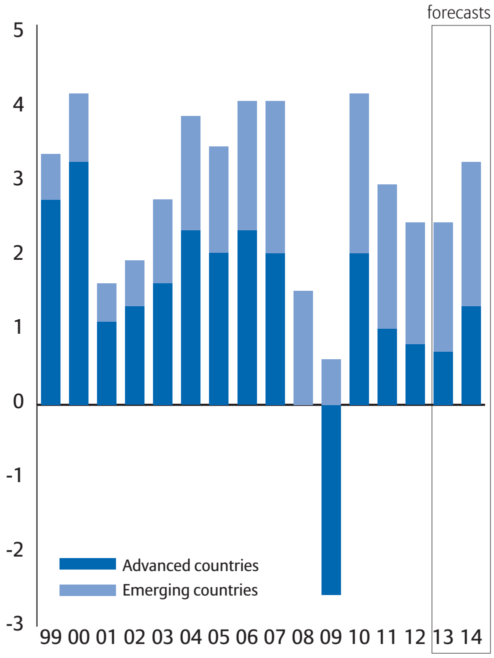
Contribution to 2013 GDP growth*

	GDP =	Domestic demand +	Net trade contribution
Australia	2.4%	2.1%	0.3%
Norway	2.2%	3.2%	-0.9%
Canada	1.9%	2.1%	-0.1%
USA	1.8%	1.7%	0.0%
Sweden	1.2%	0.9%	0.3%
Switzerland	1.1%	1.2%	0.0%
Ireland	1.1%	-0.2%	1.3%
Japan	1.0%	1.3%	-0.3%
UK	0.7%	0.6%	0.1%
Germany	0.7%	0.7%	-0.1%
Denmark	0.5%	1.1%	-0.5%
Austria	0.4%	0.2%	0.1%
Finland	0.2%	-0.5%	0.6%
Belgium	0.1%	-0.3%	0.4%
Netherlands	0.1%	-0.2%	0.3%
France	0.1%	-0.3%	0.4%
Italy	-1.2%	-2.2%	1.0%
Spain	-1.5%	-4.8%	3.4%
Portugal	-2.2%	-4.0%	1.8%
Greece	-4.1%	-6.3%	2.1%

Sources: IHS Global Insight, Euler Hermes forecasts
* yearly average

World economic growth

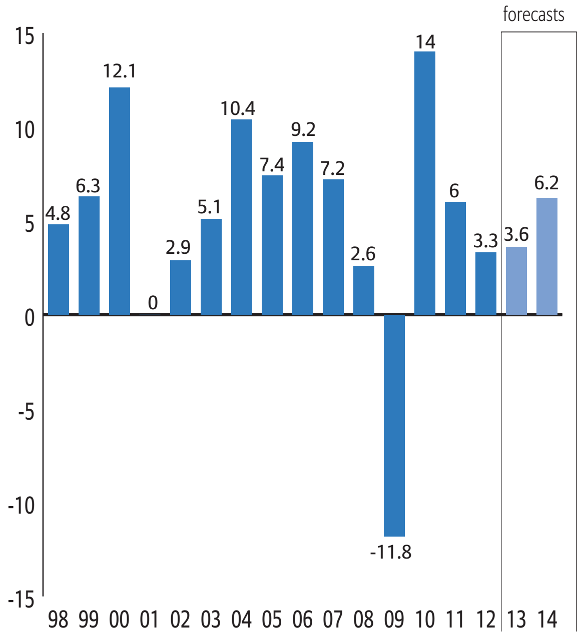
Annual average contribution to world growth, in %



Sources: IMF, IHS Global Insight, Euler Hermes forecasts

World trade in goods and services

yearly change, in %



Sources: national statistics, IHS Global Insight, Euler Hermes forecasts

Economic forecasts

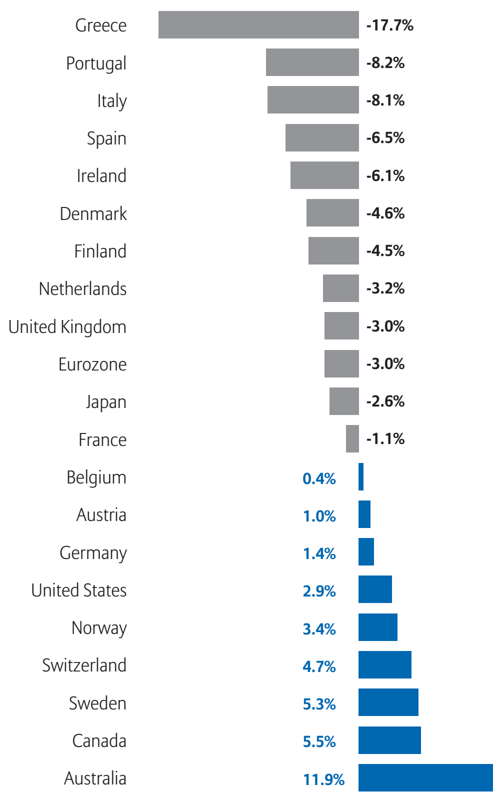
GDP	share*	2011	2012	2013	2014
World	**100**	**2.9**	**2.4**	**2.4**	**3.2**
Advanced economies	**63**	**1.5**	**1.3**	**1.1**	**2.0**
Emerging economies	**37**	**6.1**	**5.0**	**5.1**	**5.6**
North America	**25**	**1.9**	**2.2**	**1.8**	**2.7**
United States	22	1.8	2.2	1.8	2.7
Canada	3	2.6	1.8	1.9	2.5
Western Europe	**23**	**1.5**	**-0.3**	**0.0**	**1.3**
United Kingdom	3	0.9	0.2	0.7	1.2
Sweden	1	3.8	1.2	1.2	2.2
o. w. Eurozone members	**17**	**1.5**	**-0.5**	**-0.3**	**1.2**
Germany	5	3.1	0.9	0.7	1.9
France	4	1.7	0.0	0.1	0.9
Italy	3	0.6	-2.4	-1.2	0.7
Spain	2	0.4	-1.4	-1.5	0.7
Netherlands	1	1.1	-0.9	-0.5	1.0
Ireland	0	1.4	0.7	1.1	1.9
Portugal	0	-1.6	-3.2	-2.2	0.5
Greece	0	-7.1	-6.4	-4.1	-0.5
Central and Eastern Europe	**6**	**4.7**	**2.1**	**2.9**	**3.4**
Russia	3	4.3	3.4	3.8	4.0
Turkey	1	8.5	2.2	4.0	4.0
Poland	1	4.3	2.0	1.7	2.7
Latin America	**8**	**4.2**	**2.6**	**3.3**	**3.8**
Brazil	3	2.7	0.9	3.0	3.8
Mexico	2	3.9	3.8	3.5	3.9
Asia	**29**	**4.8**	**4.8**	**4.9**	**5.1**
China	12	9.3	7.8	8.0	8.2
Japan	8	-0.5	1.9	1.0	0.9
India	3	6.9	5.0	6.5	7.0
Oceania	**2**	**2.3**	**3.2**	**2.1**	**2.8**
Australia	2	2.4	3.6	2.4	3.1
Middle East	**4**	**4.6**	**2.6**	**2.3**	**4.0**
Africa	**2**	**0.4**	**5.6**	**4.6**	**4.8**

Sources: IMF, IHS Global Insight, Euler Hermes forecasts, in %
* 2012 GDP weighing at current exchange rates

forecasts

GDP growth

Q4 2012 compared to Q1 2008



Sources: national statistics, IHS Global Insight, Euler Hermes forecasts growth policy mix. The central bank inflation target has been lifted from 1% to 2%. The Bank of Japan has spoken in favor of a more aggressive expansionary monetary policy in order to kick-start growth (monthly asset purchases amounting to 1.3% of GDP in order to double the monetary base by 2015), drive down the yen and break out of the deflationary cycle that has gripped the country. This position could soon be strengthened further, with the appointment of a new governor, Haruhiko Kuroda, in favor of a more accommodating policy. In addition to this monetary policy, new fiscal stimulus measures have been announced (JPY 13,100 billion, i.e. the second largest package in the Japanese history).

(iv) Emerging countries have shown resilience. Economic growth among the BRICs (Brazil, Russia, India and China) accelerated to +6.1% y/y on average in Q4 2012, compared to +5.3% y/y in the previous quarter. This performance resulted in large part from an improvement in economic activity in China (+7.8% y/y) and India (+8.9%), both performances being bolstered by past and ongoing expansionary monetary policies.

Nevertheless, the economic recovery is struggling to gain traction, with expected growth of +2.4% for the second consecutive year in 2013 and +3.2% in 2014. Despite financial tensions having eased, leading indicators continue to point to weak activity and persistent regional disparities in 2013. The global economy is forecast to grow by +2.4%, driven by emerging countries (+3.6%), the United States (+1.8%) and Japan (+1.0%), while the eurozone is expected to remain in recession (-0.3%). Global activity should then start to stabilize in late 2013 and pick up more strongly in 2014 on the back of a rebound in global trade, the main growth drivers being the United States (+2.7%) and emerging countries (+5.6%), with moderate growth in the eurozone (+1.2%).

The first available indicators for 2013 are unsatisfactory. While global growth in Q4 2012 came in at +0.6% q/q (2012 annual average at +2.4% the same as in 2011), economic indicators in early 2013 tend to confirm a still-weakened global trend. Global industrial production in the month of January grew +1.1% compared to the previous three months (vs. +2.0% on average since the end of the crisis), underpinned by vigorous production in emerging countries (+2.1% compared to the previous three months) and the recovery in the United States (+1.6% compared to the previous three months), albeit still undermined by the eurozone (-1.4% compared to the previous three months).

Global growth is expected to stabilize at +2.4% in 2013 before accelerating to +3.2% in 2014. In early 2013, industrial confidence points to a slight improvement in global activity prospects thanks to positive trends in the United States, Japan and China. The eurozone continues to weigh on the global economy. Activity prospects in the region remain mixed, with leading indicators still weak in the main countries. Nevertheless, subsiding risks and institutional progress since September 2012 should pave the way for a gradual stabilization of global economic activity during 2013, probably in the second half of the year (+2.4%), and a more pronounced upturn in 2014 (+3.2%). The increase in global demand should bolster global trade (+6.2% in 2014 after +3.6% in 2013).

In 2013, the eurozone will be mired in recession for the second consecutive year (-0.3%) before returning to the growth track in 2014 (+1.2%). This second year of recession in 2013 should prove to be more pronounced than previously expected (0.2 pp compared with December 2012 at -0.3%), with a slowdown in economic activity in Germany (+0.7% vs. +0.9% in 2012) and near-zero growth once again in France (+0.1% vs. 0% in 2012). Economic activity in the Southern European countries is likely to remain

Unemployment rate*

	2012	2013f	2014f
Spain	24.9%	26.4%	25.8%
Greece	24.3%	26.3%	26.0%
Portugal	15.9%	18.3%	18.2%
Ireland	14.7%	14.5%	14.1%
Eurozone	11.5%	12.2%	12.5%
Italy	10.6%	11.2%	11.0%
France	10.2%	10.9%	11.0%
USA	8.1%	7.8%	7.2%
Sweden	8.0%	8.3%	8.0%
UK	8.0%	8.0%	7.8%
Finland	7.7%	8.0%	7.8%
Denmark	7.7%	7.6%	7.5%
Belgium	7.3%	7.7%	7.7%
Canada	7.3%	7.3%	7.1%
Germany	6.5%	6.7%	6.6%
Netherlands	6.4%	7.0%	7.0%
Australia	5.2%	5.4%	5.1%
Austria	4.4%	4.6%	4.4%
Japan	4.3%	4.3%	4.1%
Norway	3.2%	3.2%	3.0%
Switzerland	2.8%	2.9%	2.9%

Sources: IHS Global Insight, Euler Hermes forecasts
* yearly average

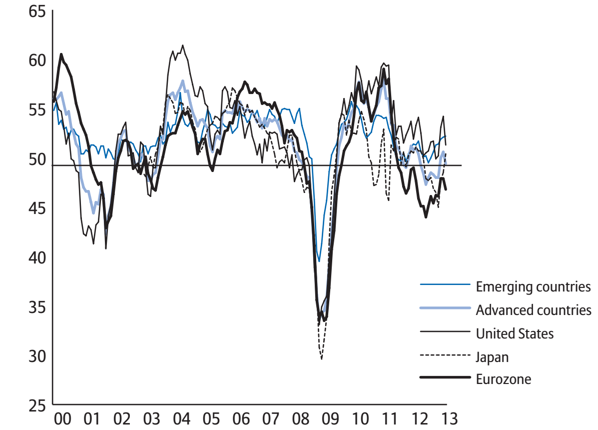
Inflation*

	2012	2013f	2014f
Greece	1.0%	-0.6%	-0.2%
Switzerland	-0.7%	-0.2%	0.4%
Japan	0.0%	0.3%	1.6%
Sweden	0.9%	0.5%	1.8%
Portugal	2.8%	1.1%	1.3%
Ireland	1.9%	1.3%	1.5%
Norway	0.8%	1.4%	1.8%
Canada	1.4%	1.4%	2.1%
United States	2.0%	1.7%	2.1%
France	2.0%	1.6%	1.8%
Italy	3.0%	1.6%	2.1%
Spain	2.4%	1.6%	1.3%
Denmark	2.4%	1.7%	1.9%
Belgium	2.6%	1.8%	2.0%
Germany	2.0%	1.8%	2.0%
Eurozone	2.5%	1.9%	1.9%
Austria	2.5%	2.1%	2.2%
Finland	2.7%	2.2%	2.1%
Netherlands	2.8%	2.2%	1.8%
Australia	1.8%	2.3%	2.5%
United Kingdom	2.7%	2.5%	2.1%

Sources: IHS Global Insight, Euler Hermes forecasts
* yearly average

Industrial confidence index

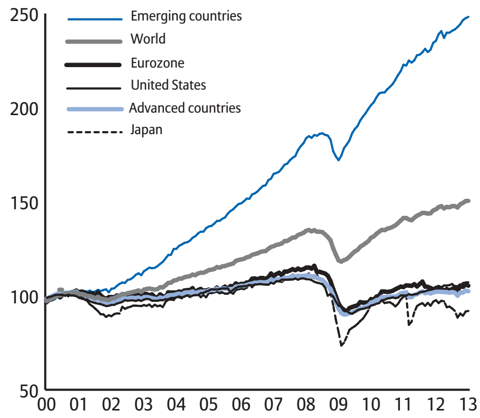
Manufacturing PMI



Sources: Markit, Bloomberg, Euler Hermes

Industrial production

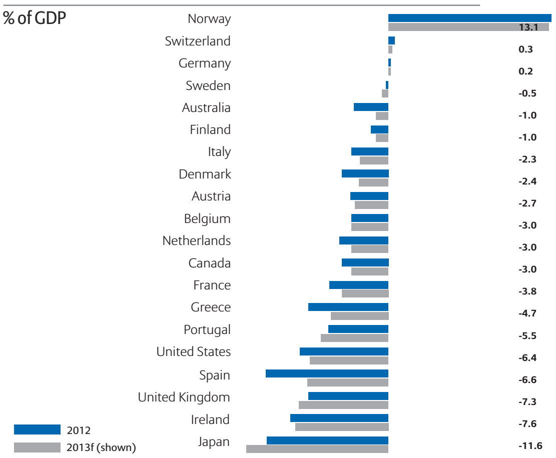
Basis 2000=100



Source: CPB

Fiscal balance

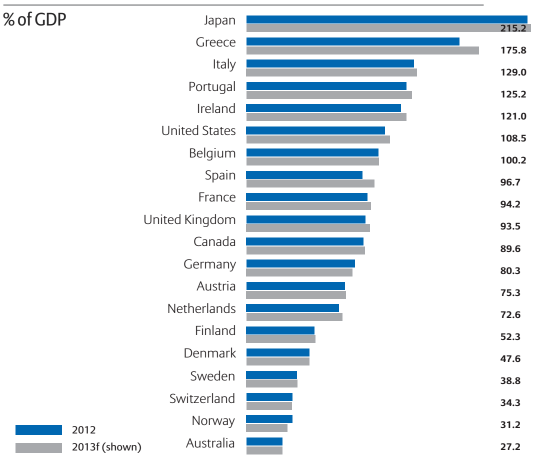
% of GDP



Sources: national statistics, IHS Global Insight, Euler Hermes forecasts

Public debt

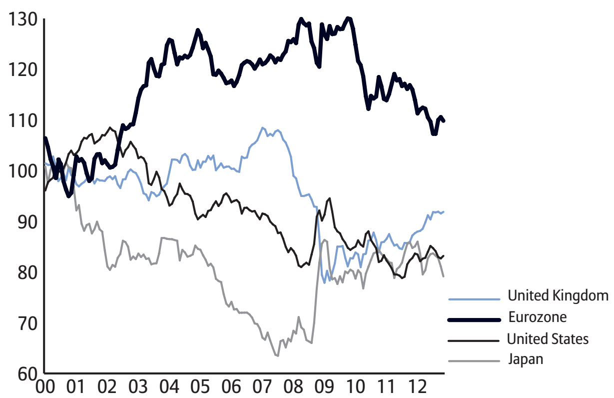
% of GDP



Sources: national statistics, IHS Global Insight, Euler Hermes forecasts

Exchange rates

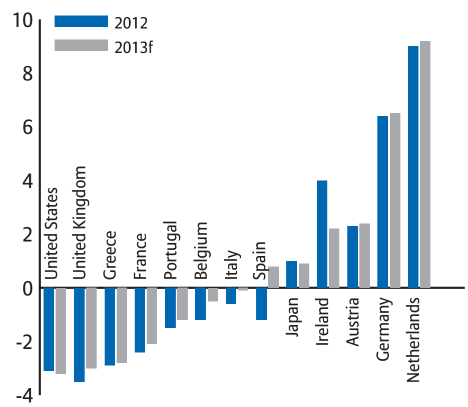
real effective exchange rate, basis 100=Q1 2000



Sources: national statistics, IHS Global Insight

Current account balance

% of GDP



Sources: IHS Global Insight, Euler Hermes forecasts at low levels, undermined by the ongoing austerity measures and private-sector deleveraging. An improvement in financial conditions and credit, the relaxation of the budgetary adjustment processes and the reduction of external imbalances should pave the way for modest GDP growth in the eurozone in 2014 (+1.2%).

US growth will remain modest in 2013 (+1.8%), but will pick up more strongly in 2014 (+2.7%). In the United States, economic activity has continued to surprise on the upside since the start of 2013, with the continuing improvement in the housing market, rising asset prices and resilient domestic demand. The good performance by the manufacturing sector led to a bright patch in the labor market , which should sustain a gradual decline in the unemployment rate (-0.3 pp to 7.8% in 2013 and 7.2% in 2014). However, the automatic public spending cuts (USD 85 billion) in 2013 are expected to weigh on private consumption. Moreover, the risk of failure to resolve the debt ceiling dispute is likely to weigh on investor confidence in H1 2013, capping economic growth to +1.8% in 2013 (after +2.2% in 2012). Thereafter, the reduced pace of the budgetary adjustment and the continuation of quantitative easing measures in 2014 should pave the way for a more pronounced upturn in activity in 2014 (+2.7%).

Economic growth is expected to remain moderate in Japan (+1.0% in 2013 and +0.9% in 2014). The depreciation of the yen (-20% since December 2012) and the strengthening of monetary and fiscal stimuli should bolster economic activity in the short term. In addition, more monetary easing measures are likely to be announced in the coming months. Nevertheless, growth will remain modest in 2013 and 2014 (+1.0% and +0.9%, respectively) insofar as a certain budgetary rehabilitation is probable in the medium to long term. Japan's mounting public debt (expected to reach 220% of GDP in 2014) could erode the confidence of investors as to its sustainability, thereby leading the country's leaders to exercise more vigilance in managing the country's public finances.

Growth in emerging countries is set to remain robust (+5.1% in 2013 and +5.6% in 2014). In emerging countries, the monetary easing measures introduced in 2011-2012 should continue to bear fruit. Economic activity is likely to gradually pick up in China (+8.0% in 2013 and +8.2% in 2014) although will remain below its pre-crisis level due to excess production capacity and the possibility of nascent inflationary pressures. Activity is likely to gather pace in Brazil (+3.0% and +3.8% in 2013-2014), driven by the expansionary measures in place since 2011. India will also benefit from an improvement in growth in 2013-2014 (+6.5% and +7.0%), the pace of which will nevertheless remain below its pre-crisis level (+8%). Last, Russia will continue to post satisfactory growth (+3.8% in 2013 and +4.0% in 2014) on the back of persistently high oil prices and buoyant domestic demand. After headwinds almost halved the growth rate in 2012, economic activity in eastern European countries will gradually pick up in 2013 and 2014 (+2.9% and +3.4%, respectively), lower inflation making it possible to conduct accommodating monetary policies while progress has been made in terms of budgetary consolidation among the region's countries.

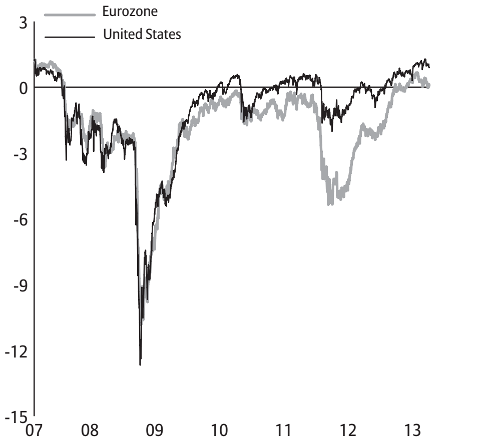
The resurgence of stress in the eurozone linked to delays in the pace of reform (budgetary, institutional) and the political stability will remain the primary factors of vulnerability in the short term. Structural weaknesses will continue to fuel macroeconomic risk in the medium term, limiting the extent of the economic recovery in the coming years.

On a more global level, political risk remains high and constitutes a stress factor that could weigh on the economic recovery. In the United States, the cut-off date for an agreement on the debt ceiling has been postponed to 19 May 2013, while a technical default is a possibility for July or August should no solution be found. Against this backdrop, investor confidence may remain under pressure and investment could take longer to pick up than initially expected. In the case of the eurozone, the political calendar remains busy and potentially destabilizing, with the worrying political situation in Italy following the recent elections and the coming legislative elections in Germany in September. Social tensions due to the ongoing rise in the unemployment rate could weigh on political stability in some countries (Italy, Spain, Greece, Cyprus). On the global (geo-) political front, renewed tensions between North Korea and South Korea are undoubtedly the main risk in the short term, given the formidable consequences (human, social, political and economic) at stake in particular in the event of war. In addition, elections are scheduled to take place in Iran in June 2013 and there is ongoing conflict in Africa, which could have destabilizing effects on the global production cycle (effect on the oil supply chain and oil prices).

Risks overhanging the sustainability of public debts remain high, in particular in the eurozone in light of the fragility of the institutional framework.

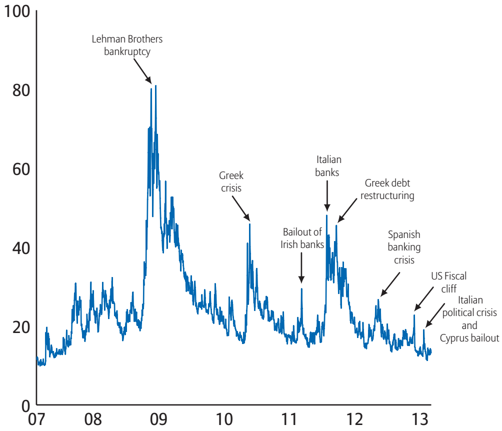
(i) The European Commission should see its role strengthened, but the risk of fiscal slippage remains significant due to high refinancing needs. In the eurozone, new budgetary targets will be decided by the European Commission in April-May 2013. In this environment, France and Spain should benefit from an easing of their fiscal targets: the return to a fiscal deficit of -3% of GDP is expected to be pushed back one year. In addition, the strengthening of the powers of the European Commission, now able to reject draft national budgets, should decrease the risks of failure to meet fiscal adjustment targets and speed up

Financial conditions index*



* The index is based on money market data, bond market data and equity market data
Sources: Bloomberg, Euler Hermes

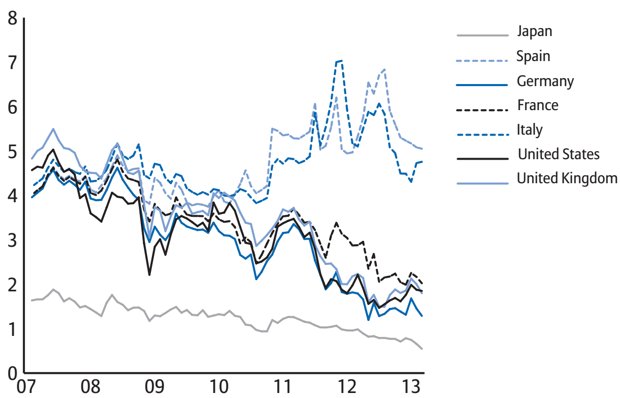
Index of financial markets volatility (VIX)



Sources: Bloomberg, Euler Hermes

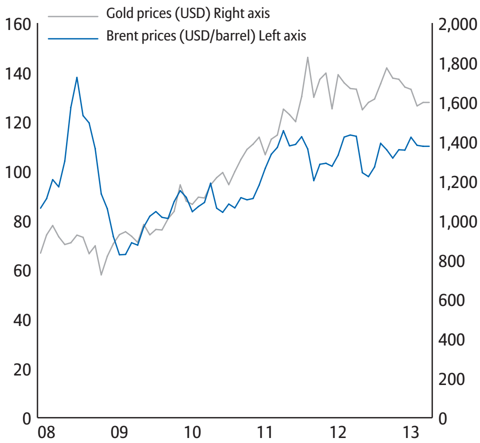
Sovereign interest rates (10 years)

in %



Sources: Bloomberg, Euler Hermes

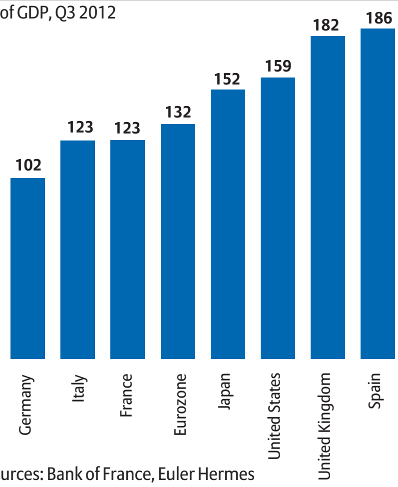
Commodities prices



Sources: Bloomberg, Euler Hermes

Private sector total debt (excl. non-financial institutions)

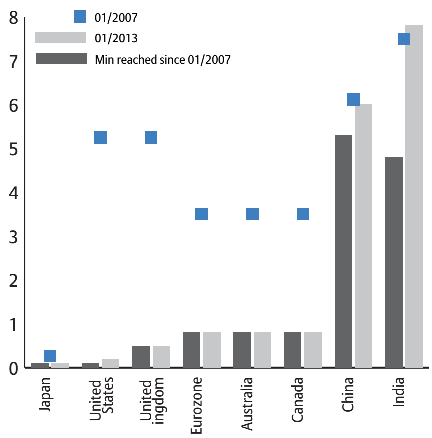
% of GDP, Q3 2012



Sources: Bank of France, Euler Hermes

Monetary policy rates

in %



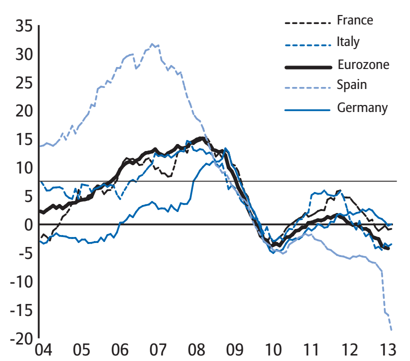
Sources: IHS Global Insight, Euler Hermes the structural reforms in these countries. Despite the loosening of budgetary targets in the case of Portugal (-5.5% of GDP in 2013, -4.0% in 2014 and -2.5% in 2015, compared with -4.5%, -2.5% and -2.0% previously), refinancing needs not covered by the Troika's program remain high (EUR 13 billion in 2013, i.e. 8% of GDP), which could require additional European support upon the country's partial return to the markets in September 2013 (e.g. ESM purchases of Portuguese bonds). The European Summit on 27-28 June should shed more light on the role of the ESM (lending capacity of EUR 500 billion by early 2014) in the recapitalization of the banks. In fact, without ESM assistance, Portugal (EUR 12 billion in aid to its banks) and Ireland (EUR 39 billion in aid to its banks) could struggle to pull out of the Troika's programs. This situation also concerns Spain, the bailout of its banks (EUR 40 billion) is slowing the budgetary adjustment, and the debt is likely to reach 100% of GDP in 2014. In addition to questions overhanging the budgetary consolidation process, attention will turn to Italy in light of its current political instability. The government's refinancing needs remain very high this year (EUR 300 billion, i.e. 20% of GDP), which could give rise to a fresh bout of tension on the market, particularly if structural reforms are delayed.

(ii) The process of financial integration is under way, but its efficiency could be challenged. The banking union is taking shape, with the agreement on the Single Supervisory Mechanism (SSM) in March 2013 being the first step in this direction. However, the implementation of the two following steps – a single bank resolution fund and a single bank deposit guarantee fund – will provide the real foundation for the banking union. This matter is scheduled to be addressed at the European Summit in late June 2013, and is all the more crucial as the Cypriot crisis has stoked fresh fears among investors with regard to the willingness of European leaders to press ahead with meaningful financial integration.

The risk of a weakening of global demand is high given persistent structural frailties. Dynamics of global production remain weak, and prospects of growth rates returning to levels as vigorous as during the last decade remain unlikely. First of all, global demand is beset by weakened private sector in developed countries. With the exception of Japan (in the short term), public sectors continue to be committed to implement austerity measures. The labor market remains depressed in Europe in particular, where unemployment has reached record levels for many countries, most notably those in the eurozone periphery. Companies are adopting increasingly cautious behavior, reflected by national data in an investment cycle that is struggling to pick up in any significant way, but also in business surveys, which point to persistently weak confidence levels. Global trade continues to be weighed down by prevailing sluggish global demand and still-high commodity prices, in particular in the eurozone. These factors remain all the more penalizing for the eurozone already hurt by a lack of competitiveness, in part linked to the strength of the euro. This weakness on the part of global trade is accentuated by the lack of any marked upswing in demand in emerging countries. While demand in these countries has so far been resilient, only a modest acceleration is expected in the medium term. On the one hand, China is likely to enter into a moderate growth cycle (average growth of 8% over the coming years compared with 10% over the last decade) given its change of economic model, having switched from export-driven growth to a model led more by domestic demand and sectors less linked to global trade. On the other hand, growth will also be limited within the other large emerging countries (Russia, India, China), with domestic engines of growth being held back by uncertainties surrounding global demand and macroeconomic policies that are tending to become more prudent (budgetary prudence in order to prevent targets from drifting out of reach, monetary prudence in the face of inflationary risks). *_AB/MI*

Credit to non financial corporations

yoy, %



Sources: Bloomberg, Euler Hermes

Global insolvency index

Annual change

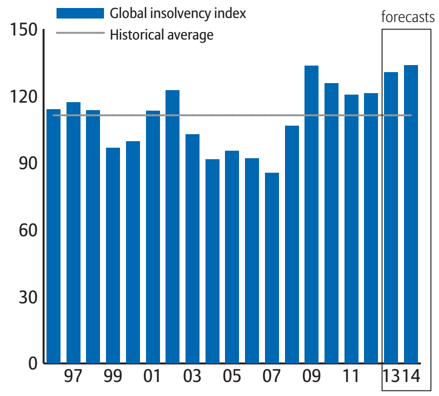
	% of world GDP*	% of global insolvency index*	2011	2012	2013	2014
Global Insolvency Index	**84.1**	**100**	**-4%**	**1%**	**8%**	**2%**
Americas Index	28.8	34.2%	-15%	-15%	-6%	-5%
Asia-Pacific Index	25.0	29.7%	-6%	-5%	1%	2%
Northern Europe Index	13.0	15.5%	-2%	5%	1%	-3%
Germany-Austria-Switzerland Index	6.9	8.2%	-5%	-5%	1%	-2%
France Index	4.1	4.9%	0%	2%	2%	-1%
Mediterranean countries Index	6.3	7.5%	18%	28%	33%	12%
Eurozone Index	19.2	22.8%	8%	16%	21%	7%

Sources: national statistics, Euler Hermes calculation and forecasts,
Basis 100=2000 * GDP 2011 weighing at current exchange rates

forecasts

Global insolvency index

Basis 2000=100



Sources: national statistics, Euler Hermes forecasts

Statistics by country

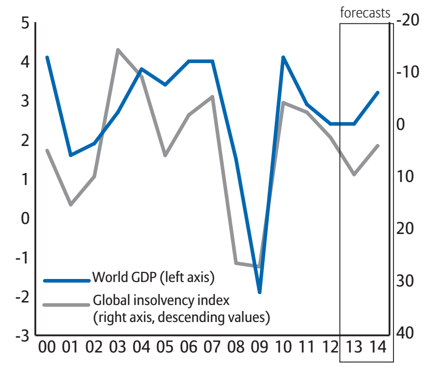
	% of world GDP*	% of global insolvency index*	2012 Total	2012 Change	forecasts 2013	forecasts 2014
United States	22.51	26.8	40,075	-16	-7	-6
China	10.88	12.9	2,626	-14	4	3
Japan	8.75	10.4	12,124	-5	-3	3
Germany	5.32	6.3	28,297	-6	1	-2
France	4.14	4.9	60,958	2	2	-1
Brazil	3.69	4.4	1,495	26	20	0
United Kingdom	3.61	4.3	29,940	-8	-7	-6
Italy	3.28	3.9	12,442	2	7	0
Russia	2.77	3.3	14,072	10	2	-3
Canada	2.59	3.1	3,236	-11	-4	-3
Spain	2.22	2.6	7,799	32	40	15
Australia	2.21	2.6	10,632	1	3	2
South Korea	1.66	2.0	1,228	-10	1	-2
Netherlands	1.25	1.5	8,616	21	7	-1
Switzerland	0.95	1.1	4,534	-3	-3	-4
Sweden	0.80	1.0	7,471	7	10	3
Poland	0.77	0.9	941	29	10	2
Belgium	0.77	0.9	10,587	4	11	2
Norway	0.72	0.9	3,814	-12	-3	-6
Taiwan	0.70	0.8	260	2	6	4
Austria	0.62	0.7	6,041	3	4	0
Denmark	0.50	0.6	5,456	0	3	-3
Greece	0.45	0.5	1,400	30	10	3
Finland	0.40	0.5	3,471	1	3	-2
Singapour	0.39	0.5	151	34	1	-3
Hong Kong	0.36	0.4	312	-6	3	-2
Portugal	0.35	0.4	6,727	42	9	1
Ireland	0.32	0.4	1,684	3	-3	-8
Czech Republic	0.32	0.4	3,764	46	10	10
Roumania	0.28	0.3	29,769	31	-3	-14
Hungary	0.21	0.2	22,389	13	4	-4
Slovak Republc	0.14	0.2	1,050	6	5	4
Lithuania	0.06	0.1	1,339	5	5	-5
Luxembourg	0.05	0.1	1,053	8	0	-5

Sources: national statistics, Euler Hermes forecasts
* GDP 2011 weighting at current exchange rates

forecasts

Insolvency and world GDP

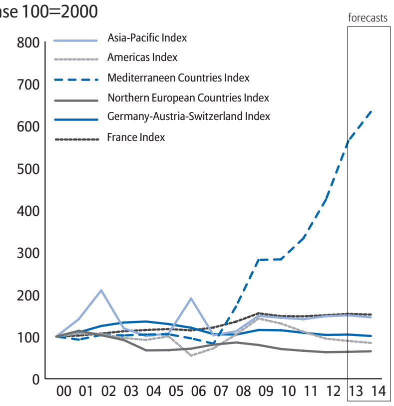
Annual change in %



Sources: national statistics, Euler Hermes calculation and forecasts

Global insolvency index by region

Base 100=2000



Sources: national statistics, Euler Hermes calculation and forecasts

Annex 3
Country Risk Levels Methodology

Economic Outlook

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