World economy is walking a tight rope

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Press conference – Paris, 10 January 2012

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The Euler Hermes forecast

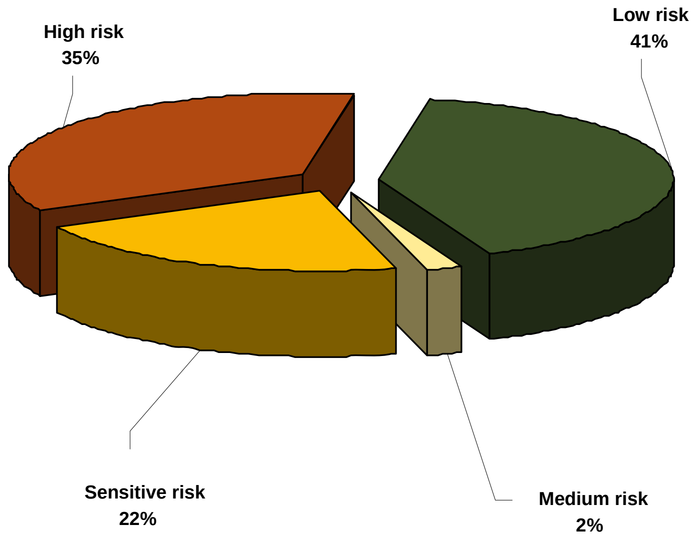
- World economic growth: slowing to +2.7% in 2012
  (+3.0% in 2011, +4.3% in 2010)
  - Emerging countries the principal contributors; but with noticeable downside risk in the event of:
    - new monetary tightening in Asia
    - sharp fall in commodity prices
- US economy: growth below 2% in 2012
  (+1.7% in 2011)
  - Barring new austerity measures
  - Consumption remains resilient
- Eurozone: yearly growth of between 0% and +0.5% in 2012
  (+1.6% in 2011)
  - With several countries posting between 1 quarter of negative growth (Germany) and 4 consecutive quarters (Greece) over 2011-2012
  - No recession over the year
  - No disorderly default; no member countries leave the Eurozone
- France: very marked slowing to +0.4% in 2012
  (+1.6 en 2011)
  - At least one quarter of negative growth
  - Outlook for still low growth in 2013 (+1.1%)

Impact on risks

Impact on risks

A still high level of country risk

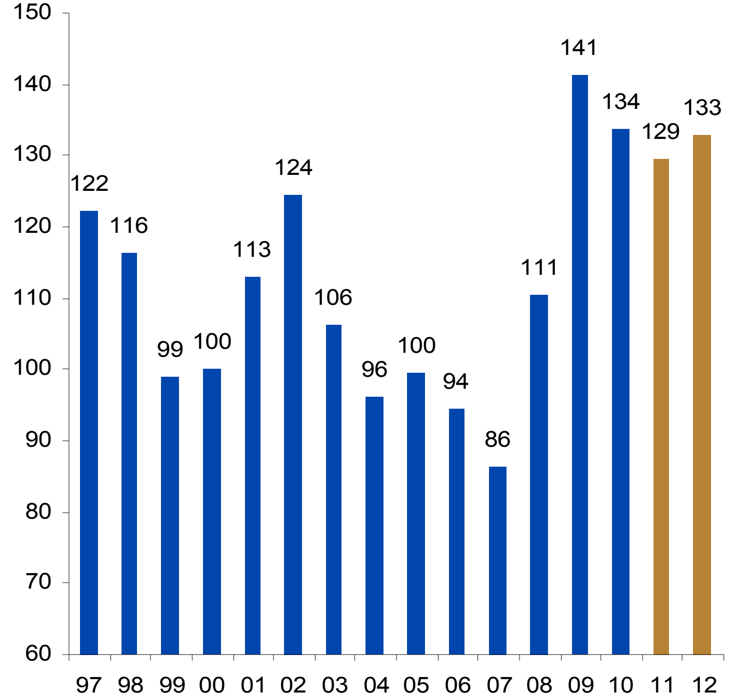
Country risk levels, % share of total



Source: Euler Hermes

Rise in counterparty risk

Global Insolvency Index (basis, 2000 = 100)



Source: Euler Hermes

In December 2011, 5 countries were downgraded and the balance of risk was downgraded for 12 others.

The number of insolvencies should rise by +3% in 2012 (after -3% in 2011).

1 **Growth is losing steam in the emerging countries and getting stuck in countries that are ‘underwater’**

2 Eurozone: epicentre of the crisis, with many facets

3 France: a difficult trial

Growth should slow to +2.7% in 2012

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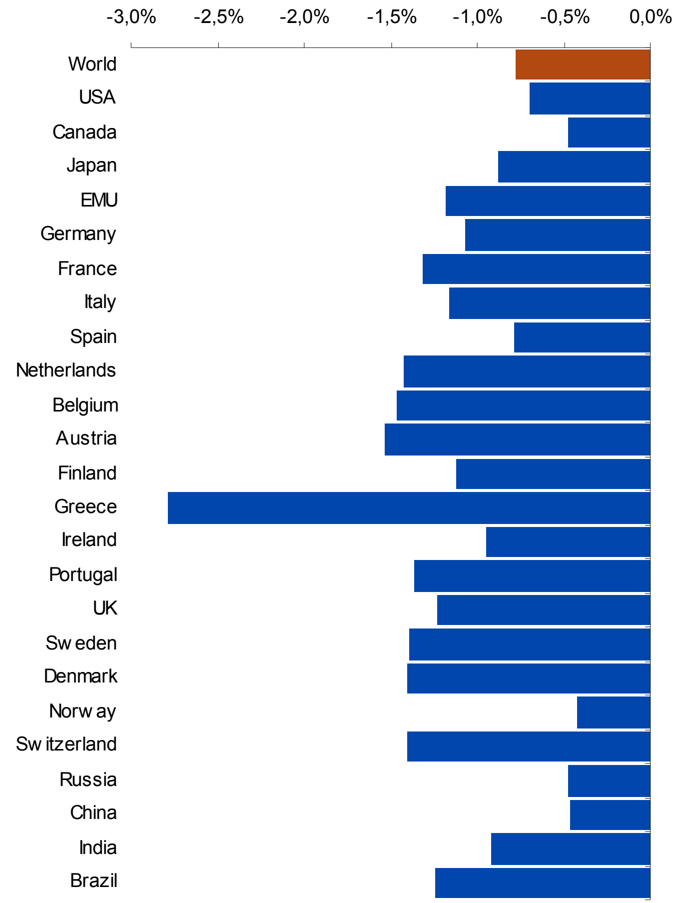
Summary of forecasts

	Weights (%)	2010	2011	2012	2013
World	***100.0***	**4.2%**	**3.0%**	**2.7%**	**3.0%**
OECD	***64.3***	**2.7%**	**1.4%**	**1.3%**	**1.6%**
USA	*24.3*	3.0%	1.7%	1.8%	1.9%
Canada	*2.6*	3.2%	2.4%	2.0%	2.3%
Japan	*9.1*	4.1%	-0.3%	1.8%	1.3%
Australia	*2.1*	2.7%	1.9%	2.7%	2.9%
EMU	*20.2*	1.8%	1.6%	0.3%	1.2%
Germany	*5.5*	3.6%	3.0%	0.8%	1.6%
France	*4.2*	1.4%	1.6%	0.4%	1.1%
Italy	*3.4*	1.2%	0.5%	-0.2%	0.3%
Spain	*2.3*	-0.1%	0.7%	0.2%	1.1%
UK	*3.7*	1.8%	0.8%	0.6%	1.2%
Sweden	*0.8*	5.3%	4.6%	1.1%	2.0%
Denmark	*0.5*	1.3%	0.9%	0.3%	1.3%
Switzerland	*0.9*	2.7%	1.8%	0.5%	1.3%
Non-OECD	***35.7***	**7.1%**	**5.8%**	**5.1%**	**5.5%**
Central and Eastern Europe	*6.7*	4.3%	4.3%	3.1%	3.5%
Russia	*2.5*	4.0%	4.0%	3.7%	4.0%
Asia (excluding Japan)	*18.8*	9.0%	7.3%	6.6%	7.0%
China	*9.7*	10.3%	9.2%	8.1%	8.5%
India	*2.5*	8.5%	7.5%	7.5%	8.0%
Latin America	*7.8*	6.2%	4.0%	3.2%	3.6%
Brazil	*3.5*	7.5%	3.0%	3.0%	3.6%
Middle East and Africa	*2.4*	4.3%	3.2%	4.4%	5.0%
World trade		**13.5%**	**7%**	**5%**	**6%**

Source: Euler Hermes, weighted for 2010 GDP, at current exchange rates

Revised 2012 GDP forecasts

(June '11 forecasts revised Jan '12)



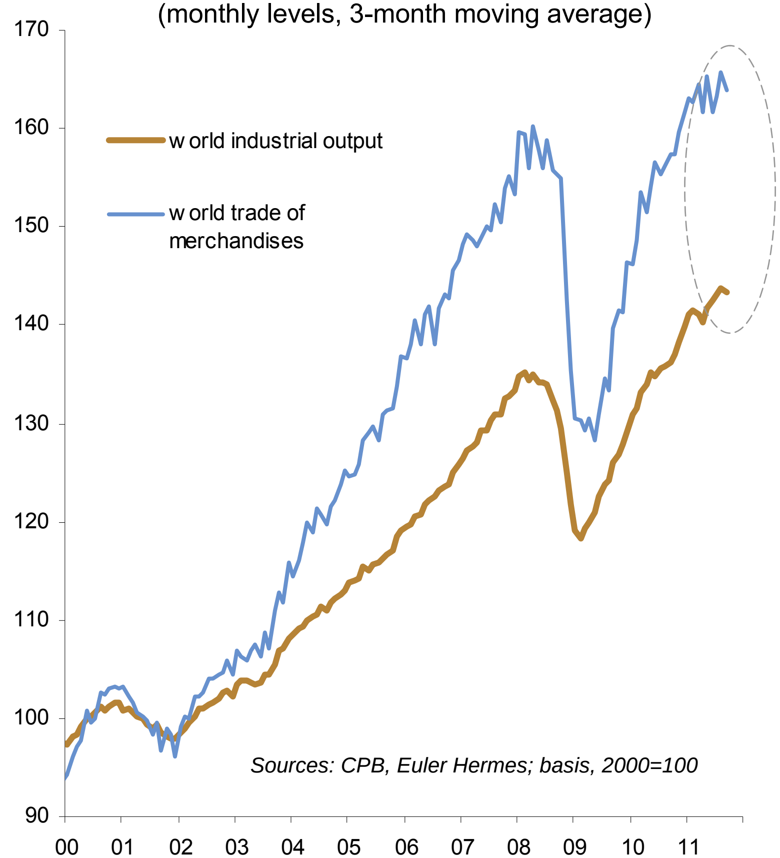
Source: Euler Hermes

The prospects have worsened, especially in the Eurozone. This January, we have revised our growth forecasts of June 2011 downwards by an average of more than 1 percentage point

Strong signs of slowing

Activity figures at the end of 2011 either levelling off or falling

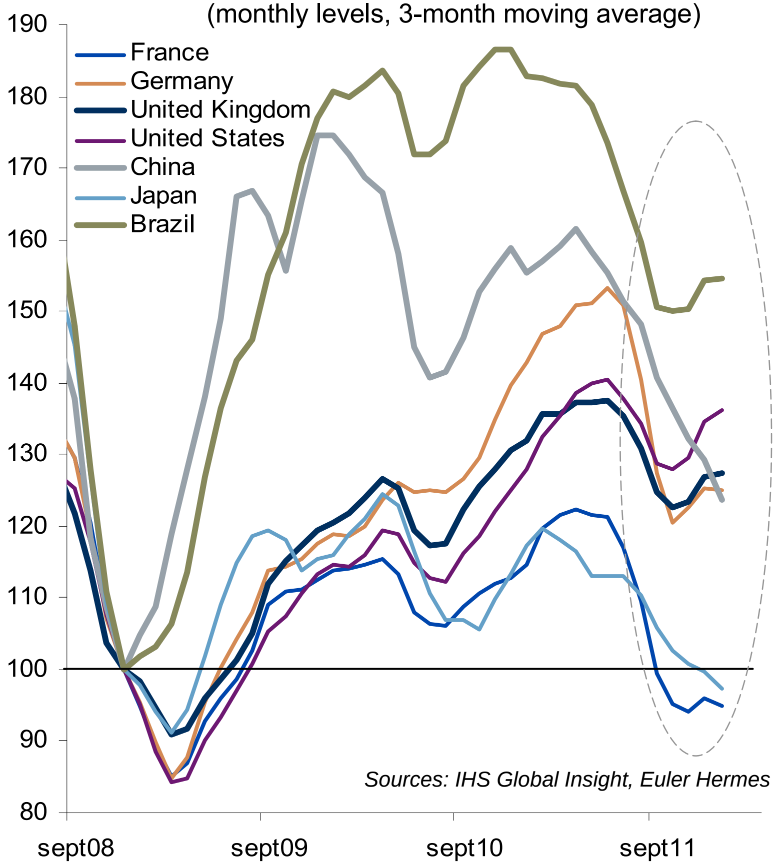
World trade and world industrial output
(monthly levels, 3-month moving average)



The upturn in Q3 is partly due to Japan and masks a net slowing since Q2

Panic in the major financial centres

Stock market indices (Q4 2008 = 100)
(monthly levels, 3-month moving average)



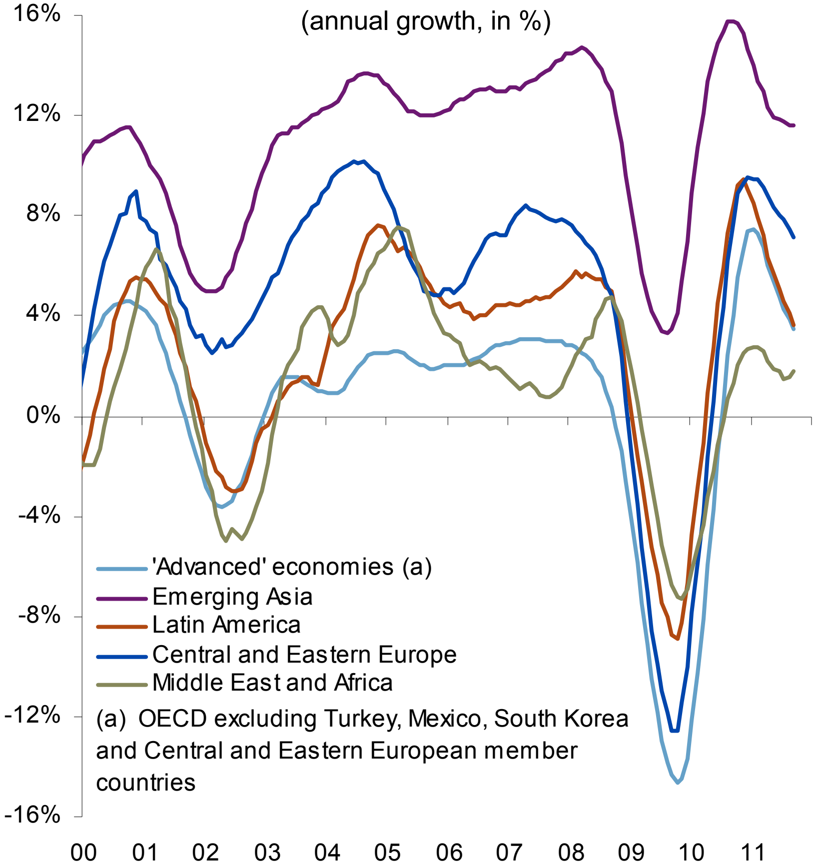
Despite a slight upturn at the end of the year, the trend is downward or stagnant

Emerging vs. underwater: the same battle!

All regions are slowing (re-coupling)…

Industrial output

(annual growth, in %)

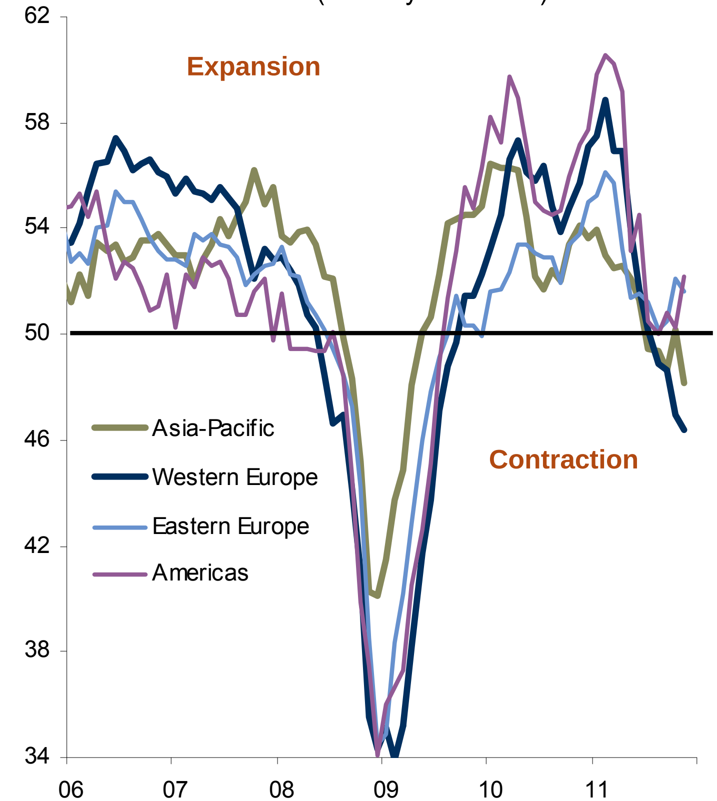


Source: CPB

…and the outlook remains poor

Regional PMI figures

(monthly indicators)



Sources: Markit, Euler Hermes

A super-dependency that worsens the outlook

Trade dependence via the Eurozone…

Trade links between the world's major economies

(based on share of exports received, in %)

	Brazil	Canada	US	Eurozone	UK	Russia	Japan	China	India
Brazil	0	2	17	33	4	4	6	27	3
Canada	1	0	82	4	4	0	3	4	1
US	4	29	0	21	6	1	7	11	2
Eurozone	1	1	8	70	10	3	1	4	1
UK	1	2	16	72	0	1	2	3	2
Russia	1	0	6	67	5	0	7	11	3
Japan	2	2	31	16	4	2	0	38	2
China	3	3	35	28	5	4	15	0	5
India	4	1	26	34	7	2	5	19	0

Share > 30%

Reading this table: The Eurozone (Column 4) accounts for 33% of total exports from Brazil (Row 1) to the countries in this table

Sources: Euler Hermes estimates, IHS Global Insight

… but also financial dependence through banking connections among the advanced economies via France and Germany

Debt of a country's residents that are held by foreign banks

(based on ultimate risk, in %)

Foreign banks (major countries reporting)

Residents' debts	Canada	France	Germany	Greece	Ireland	Italy	Japan	Portugal	Spain	UK	US
Canada [444]	-	7	7	0	1	1	13	0	0	23	26
France [1285]	2	-	17	0	1	4	8	1	3	24	16
Germany [1688]	1	16	-	0	4	16	9	0	4	11	10
Greece [131]	-	43	16	-	1	3	1	8	1	10	6
Ireland [466]	1	7	24	0	-	3	4	1	2	30	11
Italy [936]	1	44	17	0	1	-	5	0	4	8	5
Japan [809]	1	18	7	0	0	1	-	0	0	17	41
Portugal [204]	0	13	18	0	1	2	1	-	43	12	3
Spain [739]	0	20	24	0	2	4	4	4	-	14	9
UK [2906]	3	10	18	0	5	2	6	0	15	-	22
US [5640]	10	11	10	0	1	1	20	0	4	20	-

[Debt in USD bn] Between 10% and 30% More than 30%

Reading this table: French banks (Column 2) hold 7% of total Canadian residents' debt (Row 1) held by banks in the countries in this table

Sources: Euler Hermes estimates, BIS

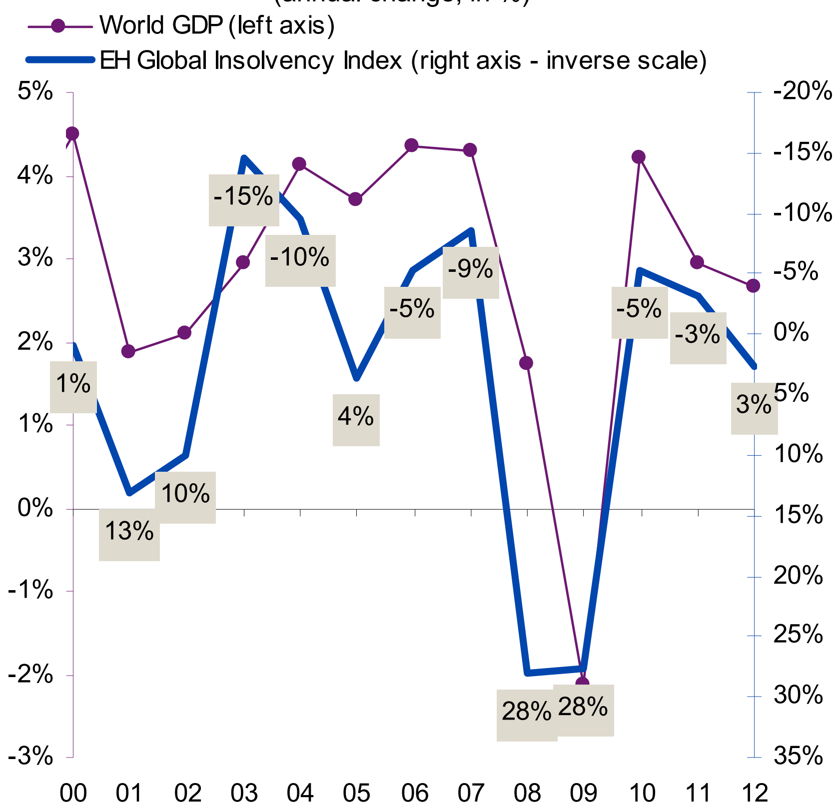
A trade and financial nexus, with the Eurozone as the nerve centre; domino effects on supply chains, and new trade flow paths

An expected increase in counterparty risk

The Global Insolvency Index is expected to increase, in line with the economic cycle…

World GDP and Euler Hermes Global Insolvency Index

(annual change, in %)

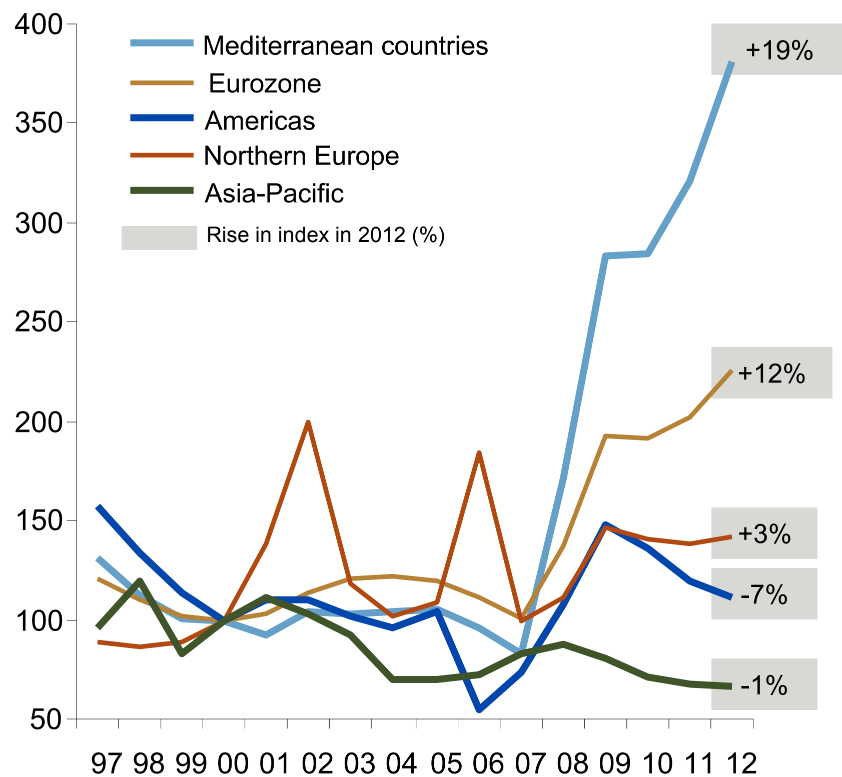


Source: Euler Hermes

…driven by a deterioration in the outlook in Europe

Regional insolvency indices*

(levels, index basis year 2000 = 100)



* Indices for zones (apart from Eurozone) as defined by Euler Hermes

Source: Euler Hermes

Assumption(s) used in our forecast:
A narrow escape for the Eurozone

Growth and inflation	Economic policies	Regional implications
• World recession is avoided, but some countries, mostly in Europe, post one or more quarters of contraction or zero growth over 2012. • Helped by the resolution of the sovereign debt crisis, the start of recovery comes at the end of 2012 but at a slow pace due to the process of debt reduction. • Commodity prices slow in line with the weakening in world demand. • Inflationary pressures ease and facilitate the use of monetary stimuli.	• Goverments in the major OECD countries work to meet their commitments to consolidating public and weaken domestic demand in their countries. Some economies, particulary in the emerging countries, could implement expansionist fiscal policies, but with less room for manoeuvre than in 2008/2009. • Monetary policy remains expansionary even in the Eurozone. • The euro weakens against its 2011 levels.	• In Europe, Eurozone sovereign debt risk eases. Growth rates are weak, but the situation is more critical in the southern periphery. • In North America, the US avoids double-dip recession but the growth rate remains weak. Households and the government have increasingly less room for manoeuvre, and the putlook is worsened by the weakness in the Eurozone. • In Latin America and Asia, growth slows due to weak demand from the advanced economies.

1 Growth is losing steam in the emerging countries and getting stuck in countries that are 'underwater'

2 Eurozone: epicentre of the crisis, with many facets

3 France: a difficult trial

Eurozone or Eurozones?

The aggregate figures are clearly falling

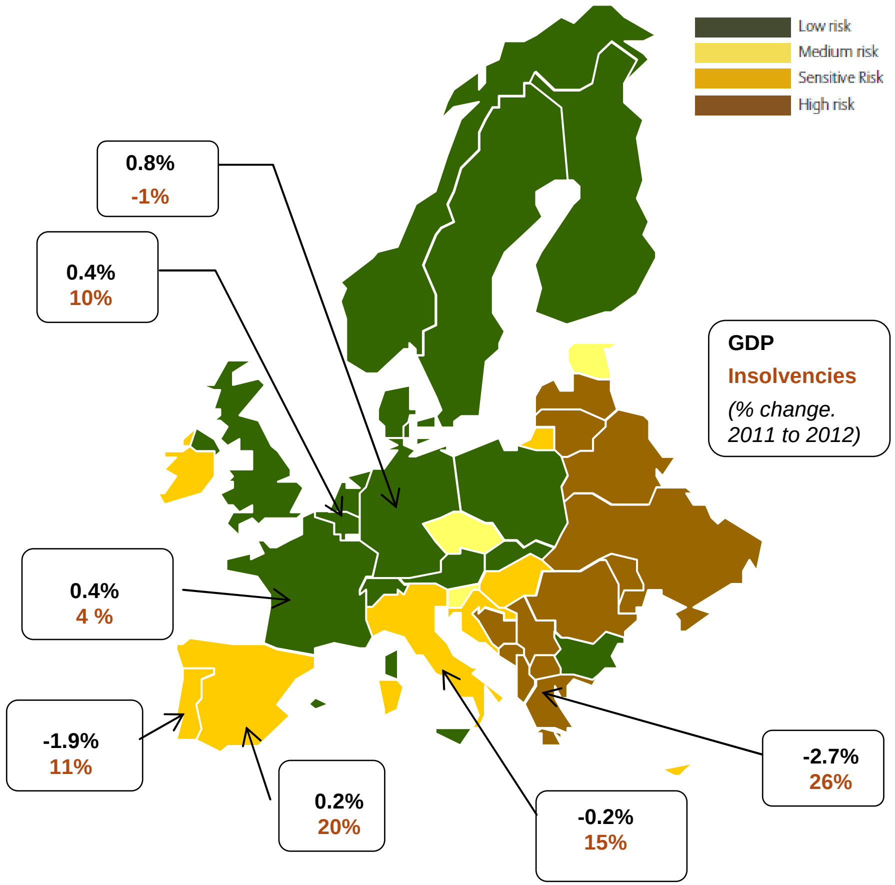
EMU		share	2010	2011	2012	2013
GDP		*100%*	1.8	1.6	0.3	1.2
Consumer Spending		*57%*	0.9	0.4	0.3	0.8
Public Spending		*21%*	0.4	0.0	-0.6	-0.6
Investment		*19%*	-0.9	2.1	0.1	2.2
Construction		*6%*	-3.5	0.4	-0.6	1.3
Equipment		*14%*	0.3	2.9	0.6	2.8
Stocks	*	*0%*	0.5	0.0	-0.1	0.0
Exports		*45%*	10.9	6.4	2.4	4.5
Imports		*44%*	9.1	4.6	1.6	3.9
Net exports	*	*2%*	0.8	0.9	0.4	0.4
Current account	**		-46	-38	-13	-30
Current account (% of GDP)			*-0.5*	*-0.4*	*-0.1*	*-0.3*
Employment			-0.4	0.4	0.1	0.5
Unemployment rate			10.1	10.1	10.2	9.8
Wages			0.7	1.4	1.3	0.4
Inflation			1.6	2.7	2.2	1.9
General government balance	**		-559	-376	-312	-244
General government balance (% of GDP)			*-6.1*	*-4.0*	*-3.2*	*-2.4*
Public debt (% of GDP)			*83.8*	*85.5*	*86.7*	*86.7*
Nominal GDP	**		9,154	9,438	9,681	9,983

Change over the period, unless otherwise indicated: * contribution to GDP growth

** euro billions

Sources: IHS Global Insight, Euler Hermes

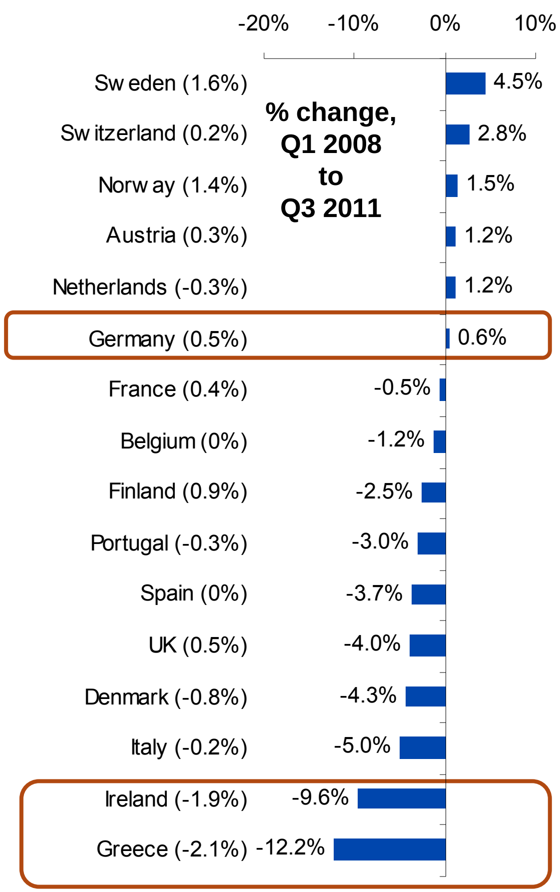
The disparities in outlook are widening in terms of growth, risks and insolvencies



Sources: IHS Global Insight, Euler Hermes

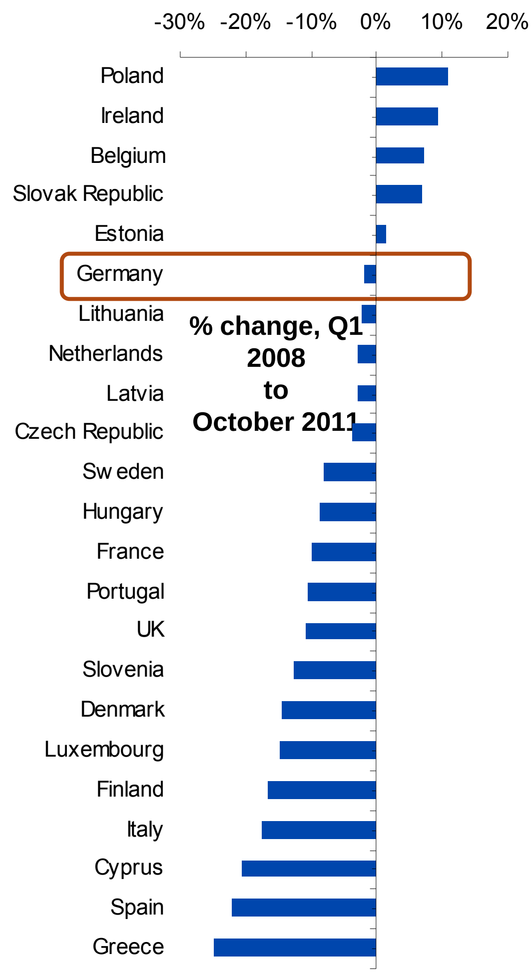
After recovery, diverging economies

Only a few countries have returned to Q1 2008 GDP levels



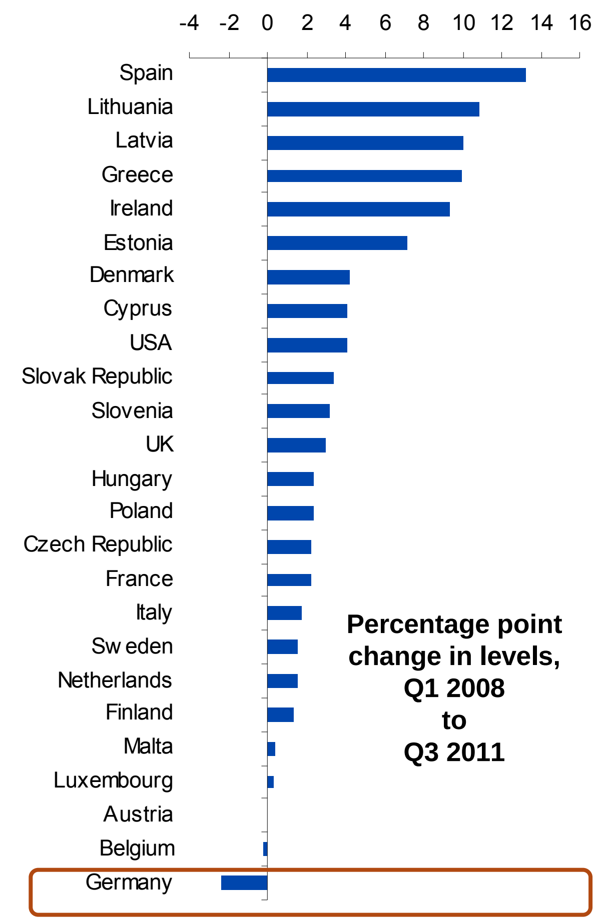
Sources: IHS Global Insight, Euler Hermes

Industrial output levels well below Q1 2008



Sources: IHS Global Insight, Eurostat, Euler Hermes

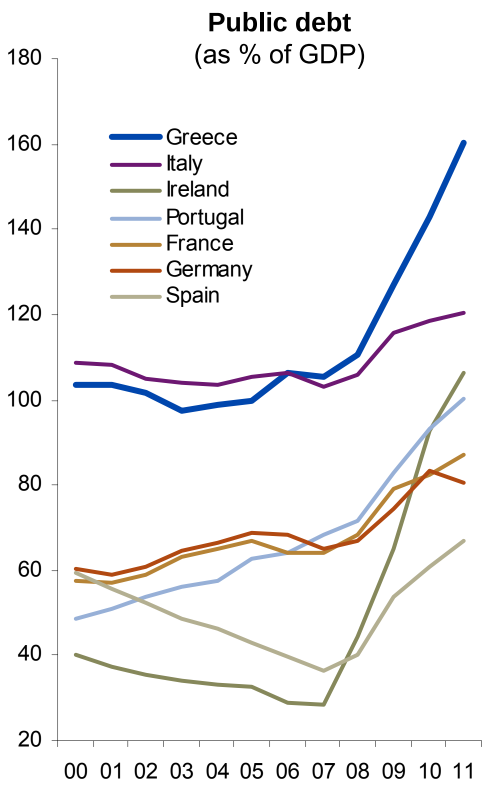
Unemployment rates well above Q1 2008



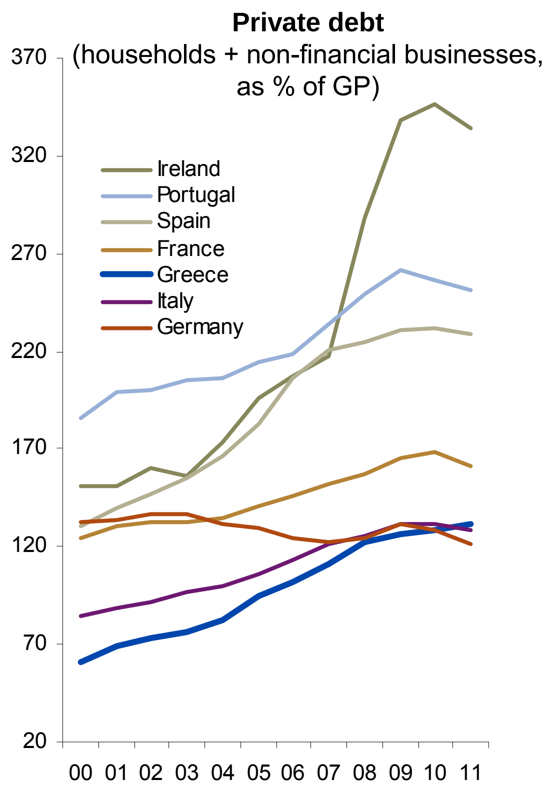
Sources: IHS Global Insight,Euler Hermes

The debt crisis…

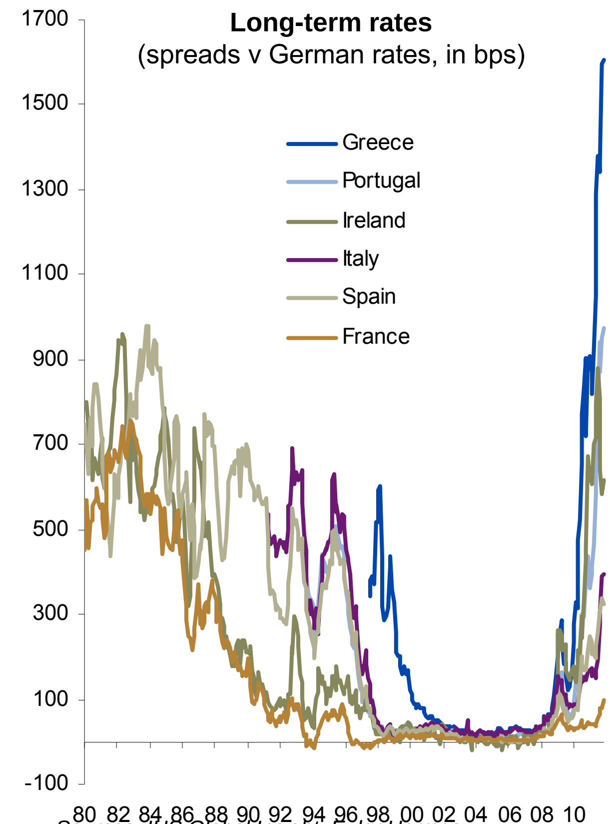
Deterioration in public finances…	…added to the weak improvement in private debt …	… maintaining fears over sovereign debt



Sources: IHS Global Insight, Euler Hermes



Sources: IHS Global Insight, Euler Hermes



Sources: IHS Global Insight, Euler Hermes

The fears over a dangerous interaction (sovereign debt, banking debt, risk of credit crunch, GDP growth risk) + the threat from new austerity measures

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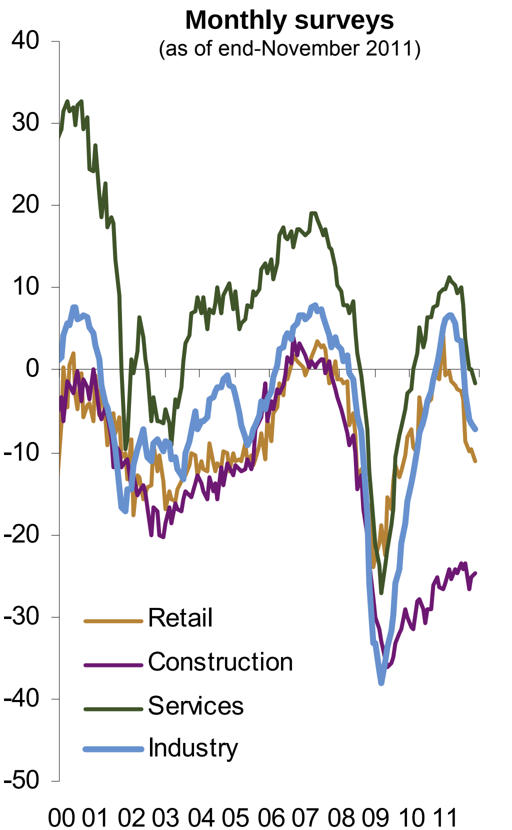
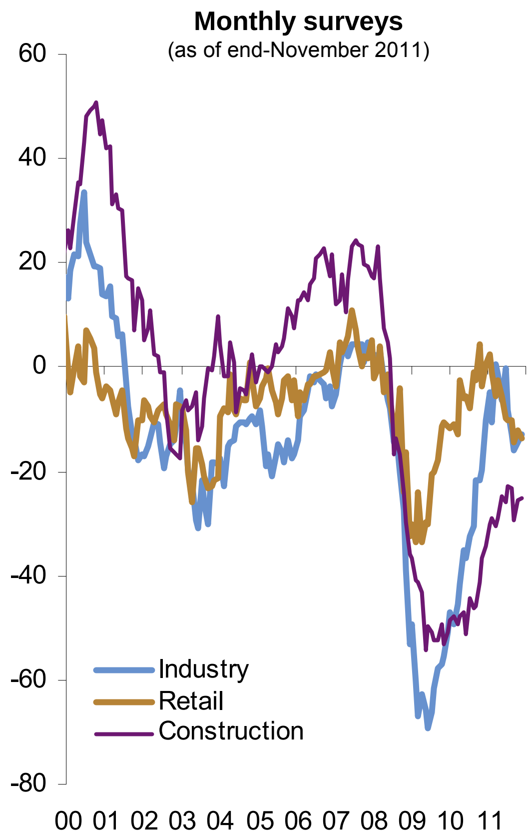
…are infecting the real economy (and vice-versa)

Falling confidence



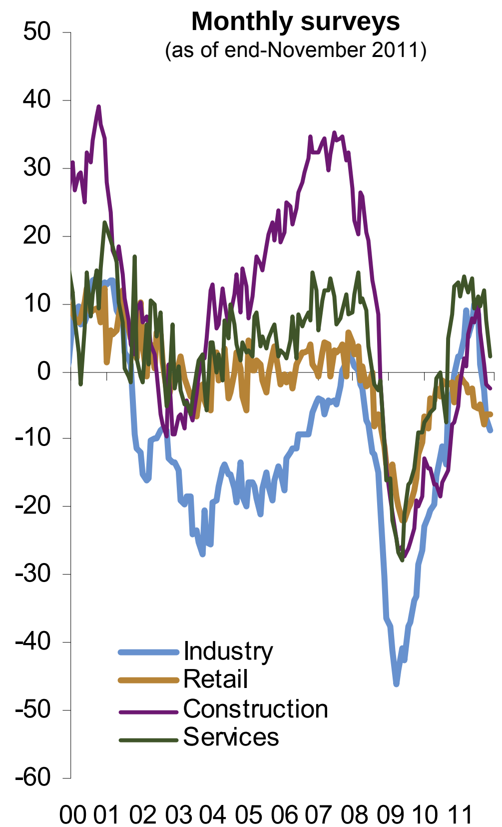
Sources: IHS Global Insight, Eurostat, Euler Hermes

Shrinking order books



Sources: IHS Global Insight, Eurostat, Euler Hermes

Falling job creating prospects



Sources: IHS Global Insight, Eurostat, Euler Hermes

High risk of accelerating decisions to postpone or cancel investments

1 Growth is losing steam in the emerging countries and getting stuck in countries that are ‘underwater’

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A marked revision in growth forecasts

GDP growth cut to a minimum over the whole of 2012 (+0.4%)

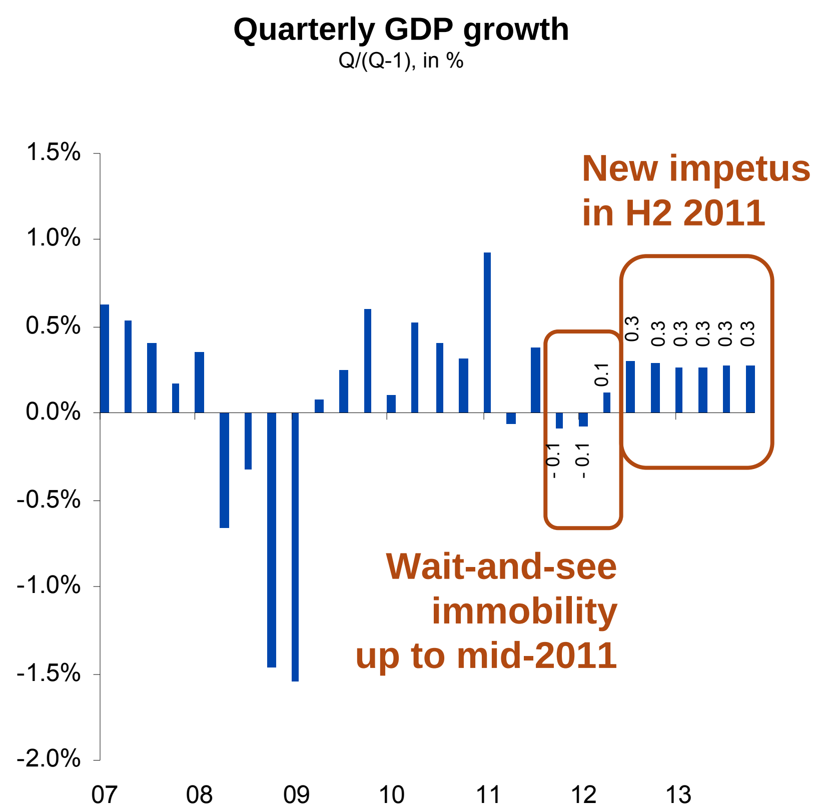
France		share	2010	2011	2012	2013
GDP		*100%*	**1.4**	**1.6**	**0.4**	**1.1**
Consumer Spending		*59%*	**1.4**	**0.6**	**0.6**	**1.1**
Public Spending		*25%*	**1.2**	**0.7**	**0.3**	**0.1**
Investment		*19%*	**-1.4**	**2.8**	**0.7**	**2.7**
Construction		*5%*	**-1.4**	**2.9**	**1.1**	**1.2**
Equipment		*14%*	**-1.2**	**2.8**	**0.5**	**3.2**
Stocks	*	*0%*	**0.5**	**0.9**	**-0.2**	**0.0**
Exports		*26%*	**9.3**	**4.1**	**1.4**	**4.9**
Imports		*28%*	**8.3**	**5.0**	**1.2**	**4.8**
Net exports	*	*-2%*	**0.1**	**-0.3**	**0.0**	**-0.1**
Current account	**		**-34**	**-45**	**-46**	**-47**
Current account (% of GDP)			*-1.8*	*-2.2*	*-2.3*	*-2.3*
Employment			**0.1**	**1.0**	**0.0**	**0.6**
Unemployment rate			**9.8**	**9.8**	**10.0**	**9.8**
Wages			**1.9**	**2.2**	**1.8**	**2.1**
Inflation			**1.5**	**2.1**	**1.8**	**1.5**
General government b.	**		**-137**	**-114**	**-96**	**-63**
General government balance (% of GDP)			*-7.1*	*-5.7*	*-4.7*	*-3.0*
Public debt (% of GDP)			*82.3*	*87.1*	*89.7*	*90.2*
Nominal GDP	**		1,931	1,994	2,037	2,092

Change over the period, unless otherwise indicated: * contribution to GDP growth

** euro billions

Sources: IHS Global Insight, Euler Hermes

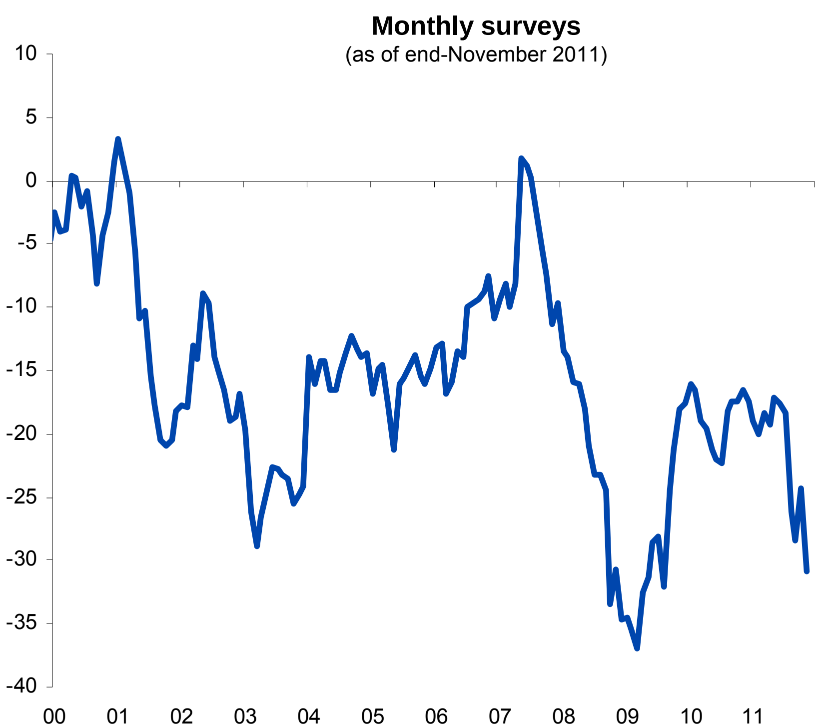
Two depressed quarters (winter 2011-2012)



Sources: IHS Global Insight, Euler Hermes

Consumption again lacking support

Consumption recovery levelling off and household confidence falling since Q2 2011



Sources: IHS Global Insight, Euler Hermes

- **Slack consumption over 2012**
- **Some potential drivers:**
  - Easing inflation
  - Savings
- **A long list of impediments:**
  - Budgetary rigour/increased taxation
  - Net decline in employment prospects
  - Prolonged wage moderation
  - Negative wealth effect (stock markets)
  - A weak level of consumer confidence
- **Activity falls (-5% to -10%)** seen since October in many sectors dependent on consumption (household appliances, electronics, retailing, textiles)

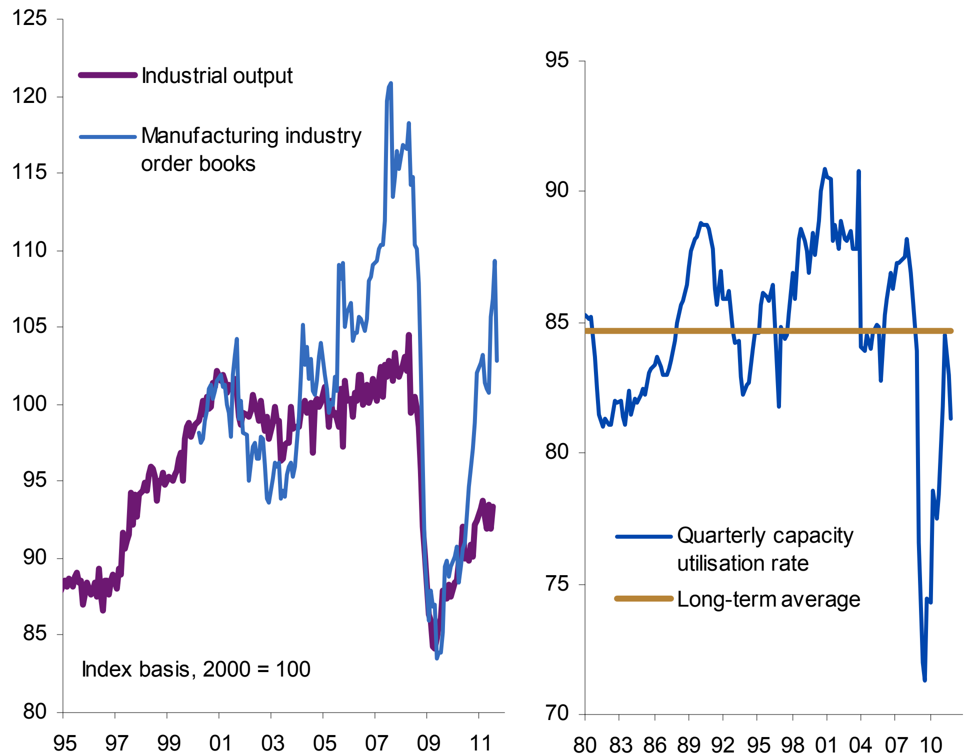
Business investment limited and defensive

The deterioration in the financial environment…

- **Cash flows under pressure:**
  - Sharp adjustments in 2009-2010 (stocks, employment...)
  - Increases in material input costs over 18 months to absorb
  - Permanent competitive pressures
  - Generally lower margings
- **Increasing financing difficulties:**
  - More selective lending criteria in a weakened banking system (exposure to European debts and to difficulties in interbank financing, regulatory requirements to strengthen capital reserves)
  - Financing difficulties across all France for local authorities
  - Non-reactivation of state des schemes for financial support to businesses

…comes on top of the worsened business conditions (business outlook and capacity utilisation rates)

Monthly surveys
(as of end-November 2011)

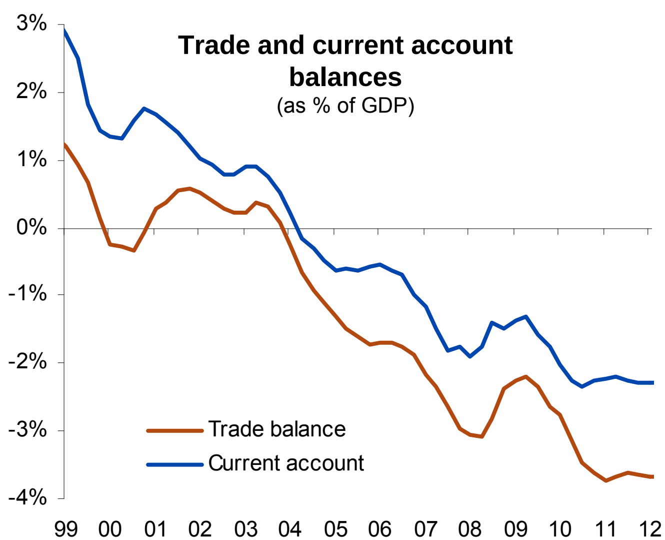


Sources: IHS Global Insight, Euler Hermes

Exports: poorer sales prospects and reduced competitiveness

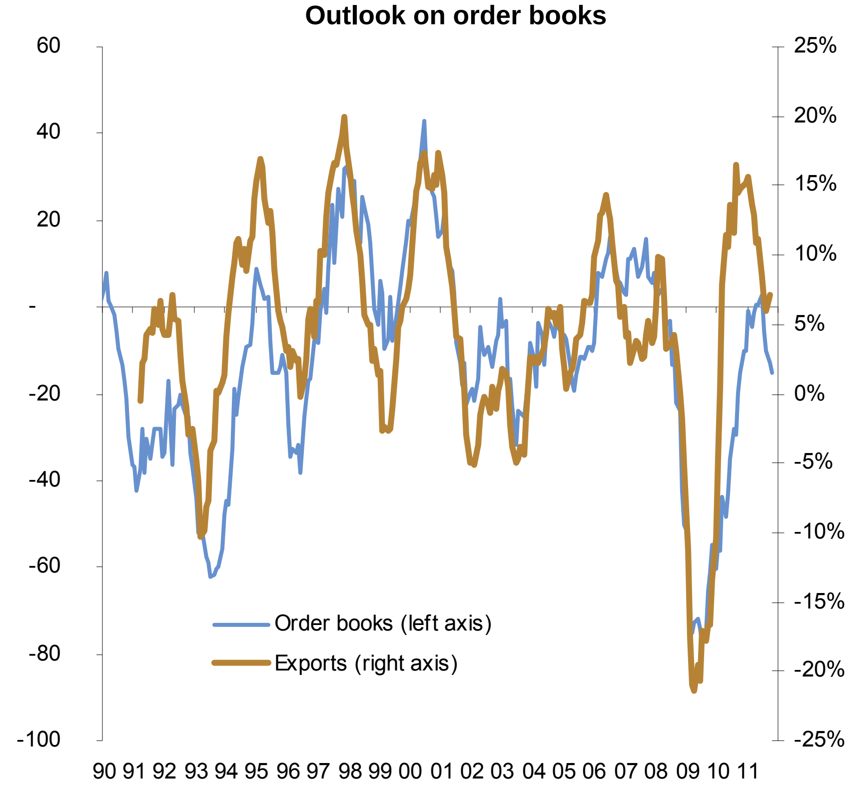
The worsening outlook on exports, which will keep external balances in deficit…

- Deceleration in world economic growth, particularly in the Eurozone, France's leading trade partner (austerity policies in Eurozone importing partners)
- Weak depreciation in the euro
- A chronic external deficit



Sources: IHS Global Insight, Euler Hermes

…. Is already clearly visible from surveys on order books



Order books: monthly Eurostat surveys, last point = November 2011
Exports: by value, yr/yr change, 3-month moving average

Sources: IHS Global Insight, Euler Hermes

Insolvencies: 2011 performance and 2012 outlook

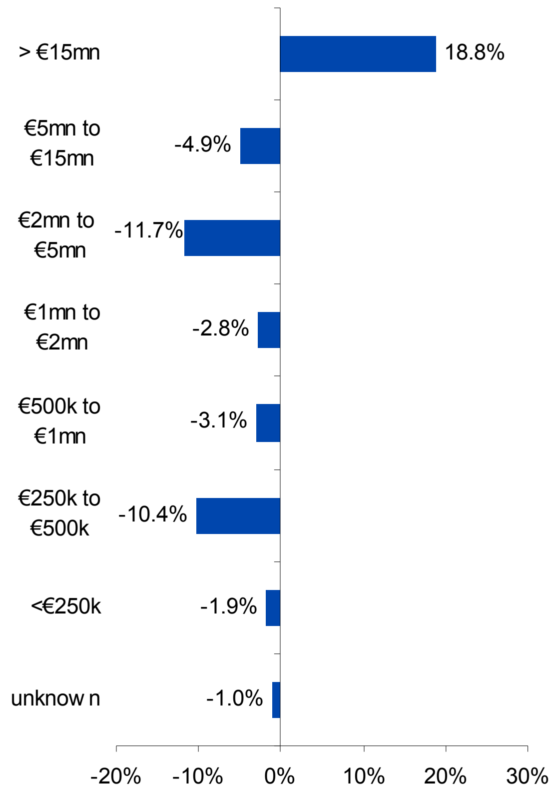
Moderation in the insolvency downtrend is confirmed....

- **Highly volatile month-on-month figures, with Q3 showing still fewer cases (August)**
- **Year-on-year increases in August, October and November, moderating the downtrend seen since the end of 2010: -2.3% for first 11 months of 2011**
- **A prolonged surge in the use of the Safeguard Procedure *(sauvegarde)***
- **Sector exceptions: retailing, consumer services**
- **An indisputable increase in insolvencies of large firms**

...and already exceptions depending on type of business,...

Insolvencies by amount of turnover

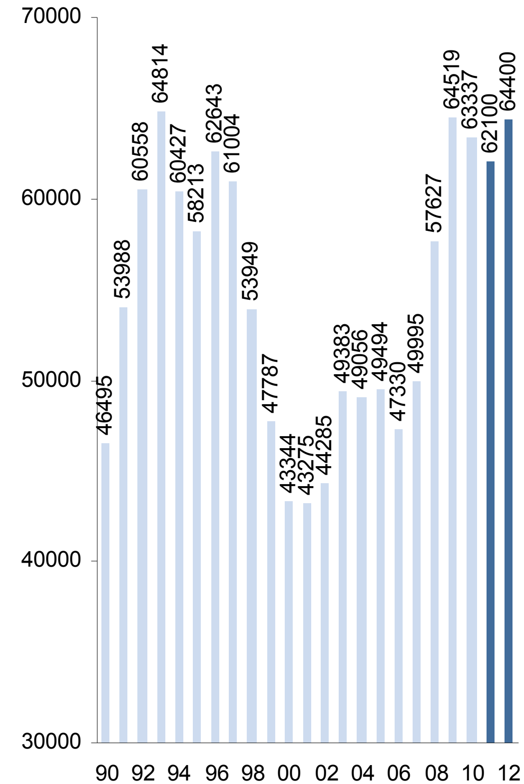
2010/2011 (cumulative to end-November)



Source: Euler Hermes, at date of publication by BODACC

... and an expected upturn in insolvencies over 2012 (+4%)

Yearly insolvencies



Source: Euler Hermes

Thank you
for your attention

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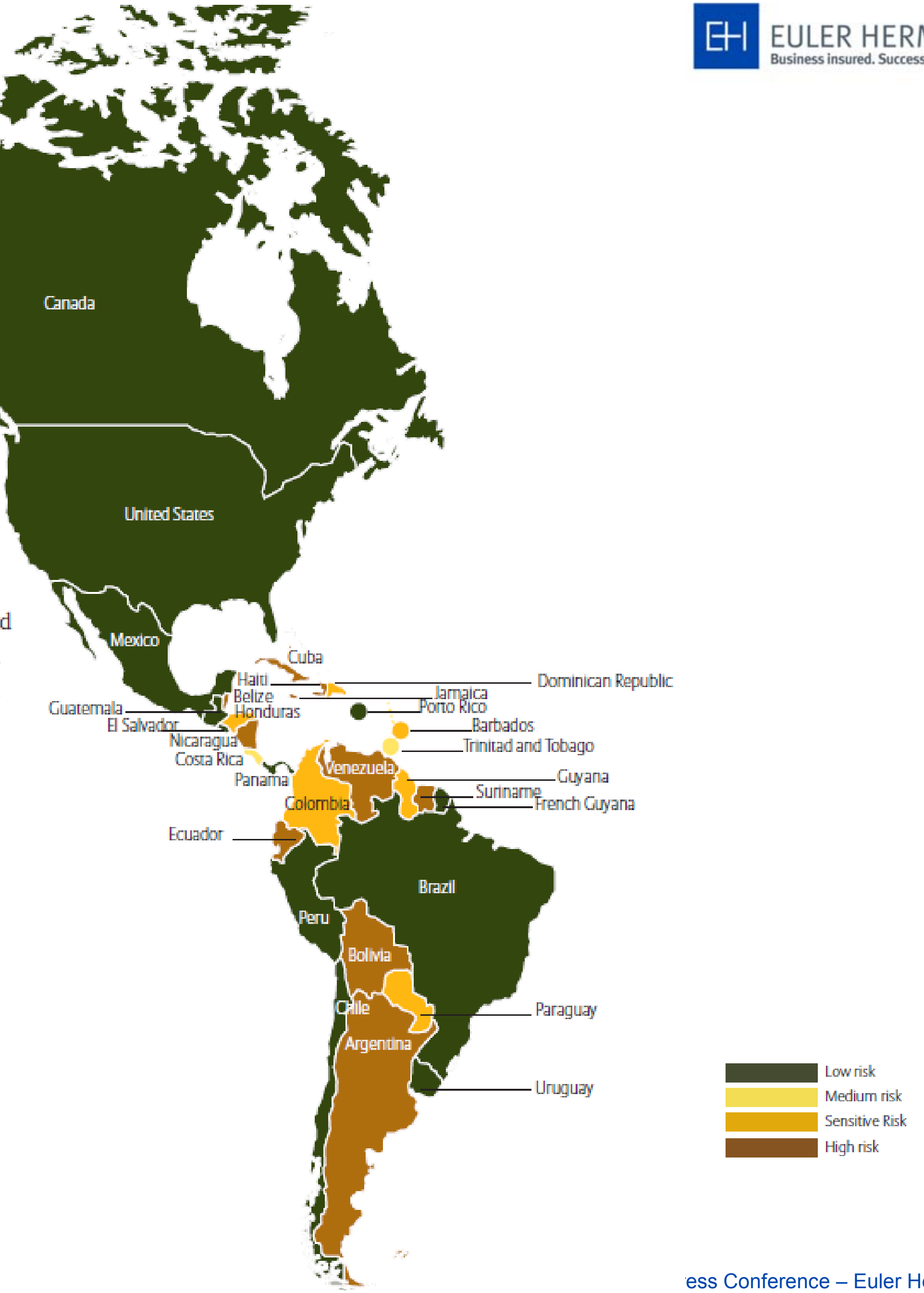
Americas

Regional growth in the emerging Americas is set to slow further in 2012 to +3.2%, from +4% in 2011, before recovering slightly in 2013.

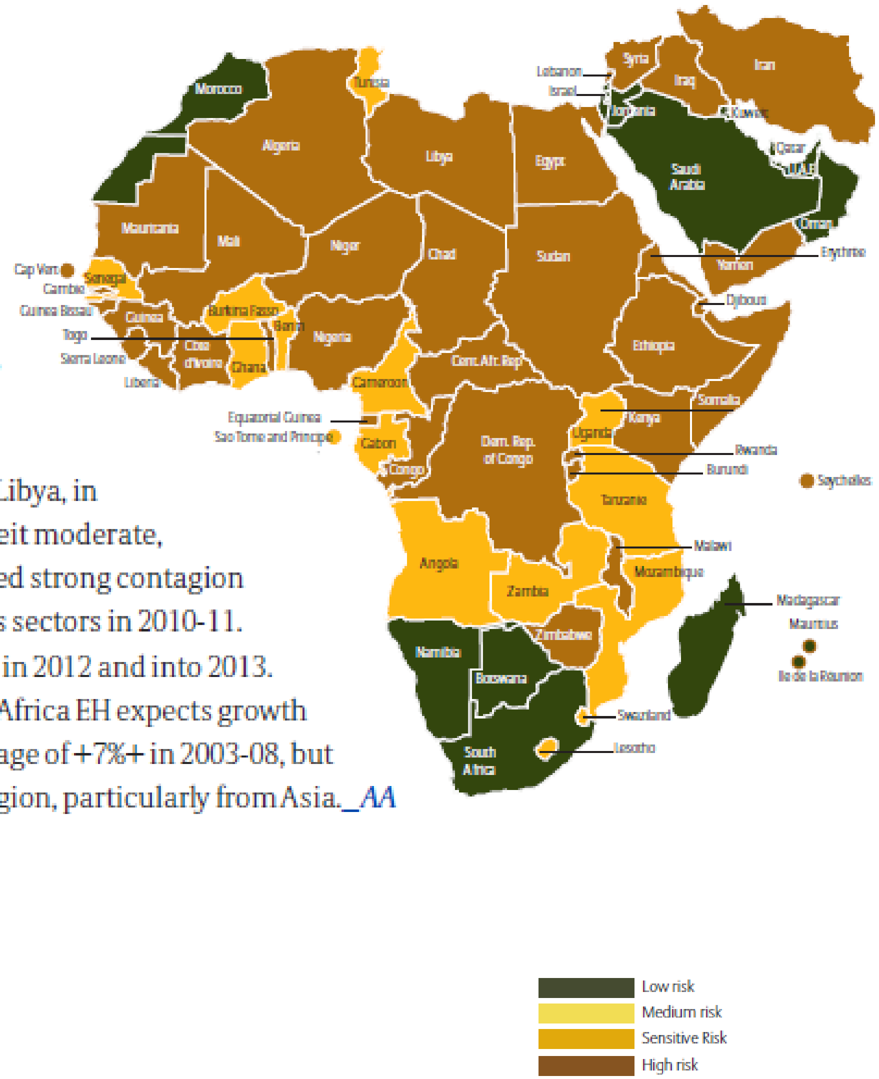
Key factors supporting growth in the emerging economies of the region—capital inflows and commodity prices—are likely to weaken, reflecting the deterioration in the global environment and, with earlier monetary tightening in most countries now making an impact on domestic demand, economic policies are moving into a more expansionary phase. In Brazil growth of real GDP stalled in Q3 2011 and will probably not exceed +3% in 2011 and 2012. Commodity-oriented economies such as Chile, Colombia and Peru will also see growth curtailed next year. Mexico could maintain growth of +3% but much will depend on the performance of the US economy, the dominant market for exports. All five remain relatively well placed to withstand a global slowdown systemically, though Peru has a relatively new and untested government. Presidential elections loom large in 2012 in Mexico, Venezuela and Dominican Republic. Jamaica has also called snap elections for the end of 2011. In Argentina there was an overwhelming win for the incumbent in the October 2011 presidential elections but the government will need to address fundamental economic weaknesses, especially if commodity prices were to fall sharply. _*DA*



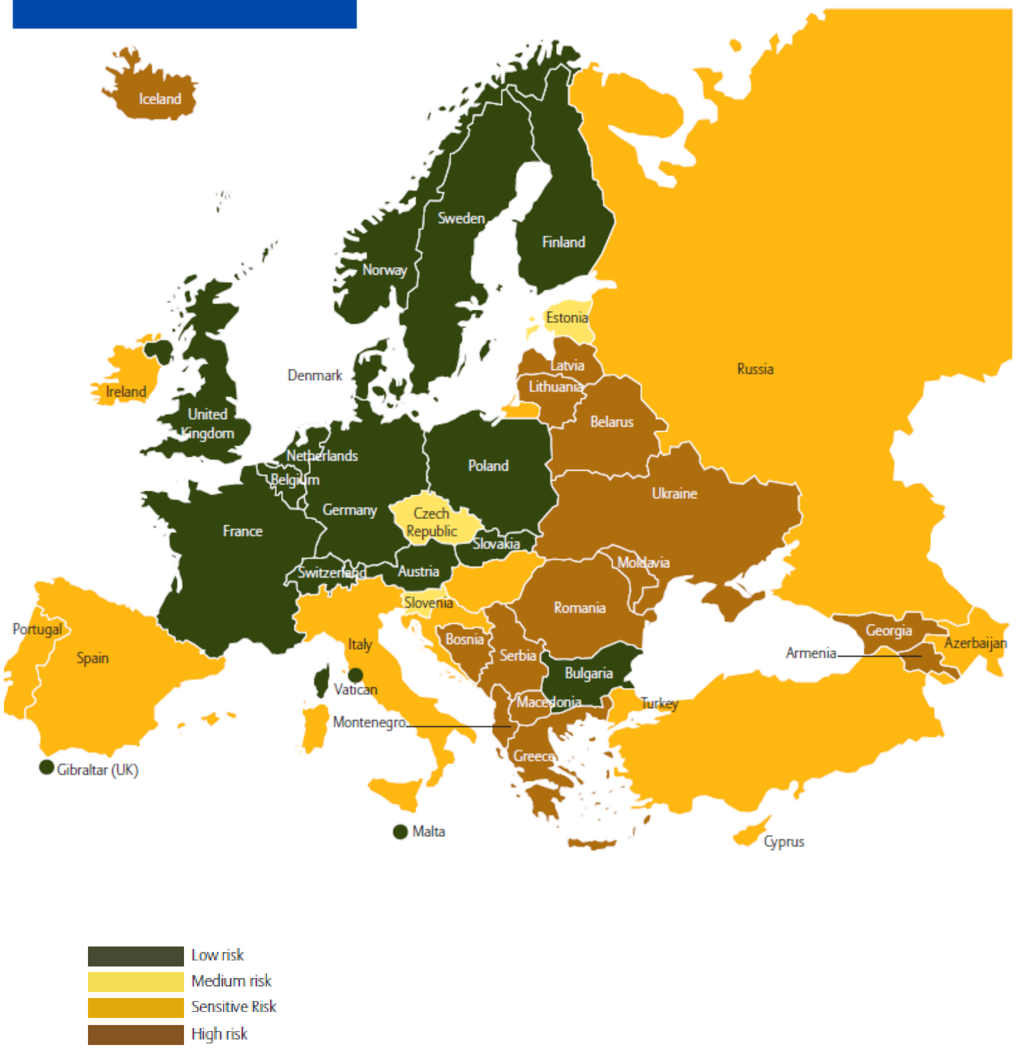
Africa and Middle East

Regional growth for the Middle East and North Africa (MENA) will recover to +4.2% in 2012 from +2.3% in 2011, despite a weaker global environment, before a new acceleration in 2013 (+5%).

This assumes that the political transitions under way in Egypt, Tunisia and Libya, in particular, do not regress significantly and there is therefore a recovery, albeit moderate, in such economies. Most of the Gulf states (other than Bahrain) have avoided strong contagion from the Arab Spring, to date, and growth benefitted from strong oil and gas sectors in 2010-11. Revenues from hydrocarbons will allow state spending to maintain growth in 2012 and into 2013. For MENA, EH expects GDP growth of around +5% in 2013. For Sub-Saharan Africa EH expects growth of just below +5% in 2012 and almost +5.4% in 2013, compared with an average of +7%+ in 2003-08, but much depends on commodity prices and the flow of investment into the region, particularly from Asia._AA



Europes



Regional GDP growth in Central and Eastern Europe (CEE) will decelerate from +4.3% in 2011 to +3.1% in 2012, before picking up slightly to around +3.5% in 2013. This resembles a similar but more distinct trend in Western Europe.

The Euro-zone crisis has a significant impact on the economic performance and country risk in emerging Europe through important trade links, the reversal of capital flows as risk aversion towards emerging markets is deteriorating and regional liquidity tightening as (foreign) banks reduce lending. The growing risks include a sharp slowdown or recession, exchange rate risk as well as sovereign, bank and corporate refinancing risk. In Q3 2011, economic activity was still strong in the region as a whole, increasing by about +4.8% yr/yr after +4.4% in Q2, largely because the three largest economies —Russia, Turkey and Poland—continued to perform well thanks to robust domestic demand. In most of the smaller, more export-driven economies, however, Q3 growth lost momentum. Moreover, in Czech Republic and Slovenia, qtr/qtr GDP contracted slightly in Q3. Several countries with flexible exchange rates have experienced considerable currency depreciation and related inflationary pressures, notably Poland, Hungary, Russia and Turkey. Hungary recently raised interest rates, despite low growth prospects, and turned to the IMF, requesting precautionary financial support. GDP growth in the group of EU members in CEE is forecast to moderate from +3% in 2011 to +1.9% in 2012 and to accelerate again to 2.6% in 2013. Growth in Russia is projected to slow less steeply from +4% in 2011 to +3.7% in 2012, though larger than currently expected falls in commodity and energy prices pose downside risks to this forecast. After overheating in the past two years, Turkey is set for a soft landing in our central scenario, with growth easing from +8% in 2011 to +4% in 2012._*MS*

Growth of the region's emerging economies will ease to +7.3% in 2011, slow further in 2012 to +6.6%, before picking up to +7% in 2013.

In China, with inflation and growth, including exports, now slowing markedly, polices are beginning to loosen, which should allow +8.1% growth in 2012, though a return to recent highs is unlikely in the near future. Hong Kong and Taiwan will also both have markedly lower growth in 2012 of around +3.5%. In Taiwan, presidential and legislative elections are also scheduled for mid-January 2012, though broad macroeconomic policy continuity looks assured post-election. Growth has also slowed in India, where partial policy paralysis, which has stalled reforms, has combined with a tight monetary stance. Annual GDP growth is now likely to be around +7.5% in both 2011 and 2012 (annual average +8.4% 2003-10), with risks on the downside. In South Korea, GDP growth has eased markedly in 2011 to around 3.5% and will slow further to +3.2% in 2012, before recovering slightly in 2013. Immediate tensions with North Korea subsided during 2011, but could still re-emerge at any time. ASEAN growth of GDP rebounded in Q3 2011 following the significant slowdown evident in Q2 that had been driven by the supply-chain disruptions from Japan's natural disasters. Moreover, supply chains were again disrupted in Q4 2011 by the severe floods in Thailand, which also had a large impact on Thailand's economic activity. As a result, growth in Thailand will recover in 2012 to +4% in 2012 after falling to just +2% in 2011. Growth in the export-dependent economies of Malaysia, Singapore and the Philippines, however, will ease to less than +4% in 2012 as a consequence of the global economic slowdown. Indonesia should be more resilient thanks to less reliance on external demand. In Vietnam policymakers continue to struggle to maintain growth and external balance. Overall, ASEAN growth can be expected to decelerate slightly from +4.8% in 2011 to 4.5% in 2012, before picking up to around +5% in 2013. Concerns about inflation have receded in South Korea and ASEAN, providing room for monetary easing. Overall, emerging Asian economies remain generally well placed systemically to deal with the uncertain global economic environment and have scope to reverse previous monetary tightening._*DA/AA/MS*

Low risk
Medium risk
Sensitive Risk
High risk

United States: cautious optimism

Economic Forecasts

Change over the period, unless otherwise indicated:
* contribution to GDP growth ** billions of dollars

UNITED STATES		share	2010	2011	2012	2013
GDP		**100%**	**3.0**	**1.7**	**1.8**	**1.9**
Consumer Spending		70%	2.0	2.3	1.8	2.1
Public Spending		20%	0.7	-1.9	-0.5	-1.0
Investment		13%	2.6	6.9	6.3	4.9
Construction		3%	-4.3	-1.9	2.7	6.3
Equipment		10%	4.4	9.0	7.1	4.7
Stocks	*	1%	1.6	-0.4	0.0	0.1
Exports		13%	11.3	6.7	4.5	6.7
Imports		16%	12.5	5.0	5.1	6.5
Net exports	*	-3%	-0.5	0.1	-0.2	-0.2
Current account	**		-471	-491	-469	-477
Current account (% of GDP)			-3.2	-3.3	-3.0	-2.9
Employment			-0.6	0.4	0.4	0.6
Unemployment rate			9.6	9.0	8.8	8.4
Wages			2.4	1.9	1.9	2.1
Inflation			1.5	3.3	2.2	2.3
General gov. balance	**		-1,275	-1,282	-1,125	-1,054
General gov. balance (% of GDP)			-8.8	-8.5	-7.2	-6.5
Public debt (% of GDP)			97	101	105	108,
Nominal GDP	**		14,527	15,087	15,621	16,218

Sources : IHS Global Insight, Euler Hermes forecasts

forecasts

Recent economic data are encouraging, and the likelihood of a double-dip recession has lessened, but the same factors that dogged the economy earlier in the year will continue to be a drag, sending the forecast for 2012 GDP growth down to a weak but still positive 1.7%, well below the pre-crisis decade average of 3.5%. In 2012, US consumption will certainly slow, and the ascent of the dollar may hurt exports. As a result, corporations will continue to make profits but at a slower rate. On the policy front, while it is certain that the Fed will continue monetary stimulus, great uncertainty surrounds the course of future fiscal policy, and the major political parties are struggling to achieve agreement over the strategy to adopt.

United Kingdom: between a rock and a hard place

Economic Forecasts

Change over the period, unless otherwise indicated: * contribution to GDP growth
** GBP billions

UNITED KINGDOM		share	2010	2011	2012	2013
GDP		**100%**	**1.8**	**0.8**	**0.6**	**1.2**
Consumer Spending		64%	1.1	-1.1	0.1	1.0
Public Spending		23%	1.5	1.9	-0.9	-1.7
Investment		15%	2.7	-1.8	2.3	3.6
Construction		10%	0.4	1.0	2.2	3.2
Equipment		6%	6.6	-6.3	2.4	4.2
Stocks	*	0%	1.1	0.1	-0.1	0.0
Exports		29%	6.2	3.9	1.1	3.8
Imports		32%	8.5	-0.4	-0.6	2.4
Net exports	*	-2%	-0.8	1.3	0.5	0.4
Current account	**		-37	-25	-21	-23
Current account (% of GDP)			-2.5	-1.7	-1.4	-1.4
Employment			0.3	0.8	0.4	0.5
Unemployment rate			7.9	7.9	8.0	7.9
Wages			3.0	1.1	2.4	2.9
Inflation			3.3	4.2	3.0	2.3
General gov. balance	**		-152	-135	-125	-108
General gov. balance (% of GDP)			-10.4	-8.9	-8.0	-6.7
Public debt (% of GDP)			78	83	89	93
Nominal GDP	**		1,458	1,508	1,558	1,613

Sources: IHS Global Insight, Euler Hermes forecasts

forecasts

Like the Eurozone, the UK saw its economy slow sharply over the end of 2011. Excluding stocks, it has already been contracting since Q2 (-0.2% qtr/qtr on average in Q2 and Q3), with a sharp drop in the impulse from foreign trade due to a collapse of exports (-1.2% qtr/qtr on average), and with domestic demand close to balance (+0.1% qtr/qtr) due to weak household consumption. In this context, it is hard to envisage any acceleration in growth in 2012. The outlook is bearish, with activity likely to contact initially in Q4 2011, parallel to shrinking demand in the Eurozone, before rising slowly in 2012 (+0.6%). The forecast for 2013 is better (+1.2%), thanks to (i) a revival in domestic growth drivers (household consumption and investment), supported by expansionary monetary policy and a prudent austerity programme (based on more consensual growth anticipations) and (ii) an improvement in the balance of risks in the Eurozone.

Japan: agitated in the short term, constrained in the longer term

Economic Forecasts

Change over the period, unless otherwise indicated: * contribution to GDP growth
** Yen trillions

JAPAN		share	2010	2011	2012	2013
GDP		**100%**	**4.1**	**-0.3**	**1.8**	**1.3**
Consumer spending		57%	2.0	-0.2	0.9	0.7
Public spending		23%	1.3	1.0	1.0	0.2
Investment		16%	0.8	1.0	3.8	2.6
Construction		2%	-8.3	5.8	5.0	1.6
Equipment		14%	2.4	0.3	3.6	2.7
Stocks	*	0%	0.4	-0.1	0.2	0.0
Exports		16%	24.3	1.2	6.1	6.4
Imports		11%	9.8	5.9	6.3	5.3
Net exports	*	5%	2.2	-0.4	0.2	0.4
Current account	**		17	10	10	11
Current account (% of GDP)			3.6	2.2	2.1	2.4
Employment			-0.4	-2.4	1.9	0.2
Unemployment rate			5.1	4.5	4.4	4.3
Wages			-1.3	0.2	0.2	0.4
Inflation			-0.7	-0.2	-0.1	0.1
General gov. balance	**		-39	-43	-43	-42
General gov. balance (% of GDP)			-8.1	-9.2	-9.0	-8.8
Public debt (% of GDP)			193	207	214	221
Nominal GDP	**		479	468	473	478

Sources: IHS Global Insight, Euler Hermes forecasts — forecasts

Having barely recovered (economically) from the March 11 disaster, and done so much faster than expected (with a marked GDP rebound in GDP in Q3), Japan has already been weakened by new short-term shocks: (i) flooding in Thailand, where large Japanese groups are present, (ii) deterioration in the world economic environment and (iii) the appreciation of the yen, despite efforts by the Bank of Japan, fuelling deflationary pressures. The continued reconstruction efforts provide a degree of growth (investment), but the external engine exterior looks more limited and consumer demand potential remains weak. GDP should expand by 1.8% in 2012 (after -0.3% in 2011), but growth will moderate in 2013 (+1.3%), while the outlook for the more medium term will be affected by issues surrounding the country's ageing population and fiscal consolidation.

Alternative scenarios, contingent on Eurozone risks	Change, since June 2011
Scenario 1: Regained impetus • Growth and moderate inflation with the Eurozone lagging slightly behind • Public finances under control, deemed sustainable • Expansionary monetary policy	↓
Scenario 2: On the edge (the Eurozone survives, but the debt crisis is resolved with difficulty • World recession avoided. Lacklustre growth in Eurozone, modest growth in US, fall in inflationary pressures • Public finance consolidation is most of the OECD countries, with varying degrees of credibility depending on the country. • Monetary policy tone: dovish	↓
Scenario 3a: partial break-up of Eurozone • The weakest ‚small' countries leave the Eurozone; the remainder find a solution. • Recession for the medium-term • World banking crisis • Process of debt reductions, financial tensions persist until the public sector regains credibility (improvement in / control of public finances)	↑
Scenario 3b: end of the Eurozone • End of Eurozone, return to national currencies • Violent and prolonged recession, followed by period of stagnation. Deflationary environment. • Governments continue consolidation efforts on a greater scale to avoid massive debt restructuring. • Expansionary monetary policy. • World banking crisis. Re-capitalisation and nationalisation of banking systems. • Capital controls. • Collapse in commodity prices.	↑

Thank you
for your attention.

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