Atradius
Managing risk, enabling trade

May 2017

Economic Outlook

A hint of spring is in the air

Editorial

Some days in late winter are special. After a long period of cold, rays of sunshine warm up the soil and a hint of spring is in the air. Such atmosphere may raise spirits, and even may lead to a state of exuberance. But one should not be deceived – spring is not here yet.

These lines spring to mind when we consider the current state of the global economy. Following the worst year since the recovery from the global financial crisis, there are increasingly clear signs of a rebound. Global trade growth that we reported to have ground to a halt in our November Economic Outlook has been creeping up since late 2016. The same holds for global economic activity. It is straightforward that this in turn benefits trade growth, and vice versa. Moreover, the rebound of the prices of oil and commodities are on more solid ground now. This is precisely what is needed to trigger more investment. That in turn supports global GDP growth and trade. A virtuous cycle is being put into motion. It has led financial markets, especially equity markets, to rally, arguably reaching a state of exuberance.

Still, as economists, we are hesitant to consider it being more than the first trace. Firstly, although GDP growth is gearing up, the level of growth remains muted, dragged down by the eurozone and Latin America. Similarly, trade growth and, especially, investments remain far below pre-crisis levels. It is not the first time we highlight this. Yet, it is the first time that (the lack of) productivity growth has been brought to the centre of attention. Besides growth, as such, productivity dissemination, in particular to the emerging economies has seen a steep decline. Secondly, the recovery of trade growth is predominantly driven by the cyclical factors that we have just described. Underlying structural forces that are dragging down global trade growth have not changed. This includes the maturing of the benefits of creation of global value chains, the rebalancing of the Chinese economy and finance constraints. Thirdly, with the election of Donald J. Trump as president, the US has reinforced the global awareness of 'America First'. Slightly differing from the administration, we interpret this as that what matters to the US, matters (perhaps even more) to the world, especially in matters of trade policy. It has led to a tripling of the level of economic policy uncertainty since early 2016. Our assessment is that trumpeting campaign promises is far from economic policymaking, let alone economic policy implementation. Nevertheless, the current level of uncertainty is unwanted at this stage of nascent economic recovery. Fourthly, the scent of spring has rallied financial markets. With economic forecasts and business profit forecasts hardly changed since the rally it seems difficult to deny the possibility of a correction.

The upshot is a picture of the global economy which undeniably shows signs of badly wanted acceleration of growth. At the same time, there is an unusual amount of uncertainty in the global economy, clouding the current outlook. That will constrain on firm and household spending. But alas, for the moment we should enjoy the first rays of sun.

John Lorié, Chief Economist Atradius

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Executive summary

The first hint of spring is in the air leaving this Economic Outlook in a position of cautious optimism. Global economic momentum, which began picking up in H2 of 2016, will push growth rates higher in 2017 and 2018. However, policy uncertainty, especially from the US, could upset the benign outlook.

Key points

- Global GDP growth is forecast to accelerate to 2.9% this year from a disappointing 2.5% expansion recorded in 2016. This strong growth rate is expected to be maintained next year with another 3.0% expansion.
- The eurozone outlook is robust with 1.7% growth expected in 2017, in line with the year before. The US economy is particularly strong with 2.1% growth forecast this year. UK economic growth is resilient at 1.7% compared to 1.8% in 2016, but the expansion is slowly easing.
- Better policymaking and recovering commodity prices are pushing GDP growth in Latin America back into positive territory: 1.6%. Growth is also picking up to 2.4% in Eastern Europe. Emerging Asia continues to enjoy the highest regional growth rate in the world of 5.7% in 2017.
- Insolvencies are forecast to be stable in advanced markets in 2017, marking the weakest year since the global financial crisis. Despite stronger economic outlooks in most emerging markets, lagged effects are keeping insolvencies rising in most emerging markets.

While the global economic situation did stabilise in 2016 after some early turbulence, the annual growth figure slowed to the slowest level since the Global Financial Crisis. Momentum has been picking up since late 2016 though in both developed markets and emerging economies. This is forecast to continue, supporting a more robust outlook for 2017 and 2018. The key trends that are driving the current economic outlook are presented in Chapter 1. On the positive side, we show there are signs of recovery for trade growth, a slight rebound in investment, high financial optimism and accommodative monetary and maybe even fiscal policy. However, most improvements pointed out are only weak, and one overhanging theme weighs on the outlook across most facets of the global economy: policy uncertainty, especially from the US.

In this light, we stress that risks remain tilted to the downside. US protectionism and misguided Fed policy top our ranking of risks to the global outlook. A slide in eurozone growth or a hard landing in China remain on the list though the probability of either remains low. Finally, we flag the risk of a correction to the post-Trump surge in equity markets.

The overall outlook for advanced economies is presented in Chapter 2. Robust consumption growth is the main driver or GDP growth in the eurozone, US, and UK while strong net exports are pushing the Japanese GDP forecast up. As the big election year in Europe continues to avoid populist outcomes, policy uncertainty remains high in the US and the UK. Tax cuts in the US should fuel rising confidence and underpin strong growth there. Business confidence remains high in the UK as well, but higher inflation is beginning to hurt Briton's wallets, weighing on the growth outlook.

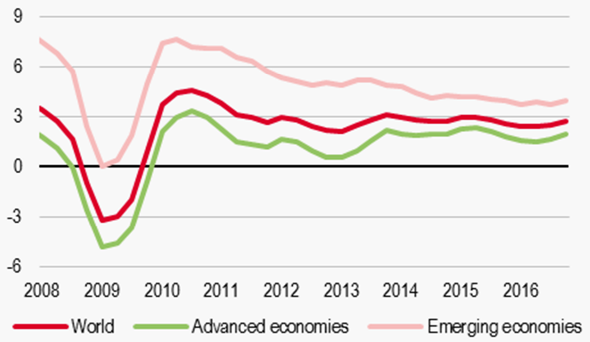
Economic growth in emerging markets is indeed rebounding after bottoming out in 2016. This is explored in Chapter 3. Higher growth in advanced markets is supporting exports while the shoring up of commodity prices is helping to stabilise some commodity-exporters. In an adverse scenario of unfavourable trade developments and tighter financial conditions though, some markets may be vulnerable. Those are the countries which are heavily reliant on trade with the US (Mexico and Vietnam), have large external financing needs (Malaysia) or low reserve adequacy (Vietnam), or a combination of the latter two (Argentina, South Africa, and Turkey). Rising protectionism, monetary tightening and slower growth in China will have an impact on emerging economies. But how strong economic growth will suffer from this, varies widely from country to country.

Chapter 4 updates our global insolvency outlook. Following a better-than-expected performance in 2016, corporate failures are expected to decrease only 1% in advanced markets in 2017. The outlook is relatively balanced with improvements most notably in the eurozone periphery where the absolute levels remain very high. Insolvencies are expected to tick up in both the US and UK, in part due to uncertainty but risks to the US business outlook lean to the upside with potential tax cuts and high business confidence. The emerging market insolvency outlook is more moderate for 2017, but it remains difficult as reforms constrain GDP growth and the recent slowdown continues to affect current activity.

1. The global macroeconomic environment

1.1 Global GDP growth is picking up

Real GDP, % change y-o-y



Source: IHS

Rebound of global activity as uncertainty heightens

In our November Economic Outlook we struck a slightly sombre tone, especially with respect to global trade. We also signalled that emerging economies had weathered the storm, of low oil and commodity prices, China's slowdown and idiosyncratic policy issues. The growth slide of economic activity there had ended, suggesting the possibility of an uptick.

Looking back, we can say that at that moment the upturn was already under way. Global trade growth was declining through early 2016, after which it improved markedly. For GDP growth, a similar picture was observed. Moreover, price recovery on the oil and other commodity markets firmed, and even investments, though still very weak, showed encouraging signs.

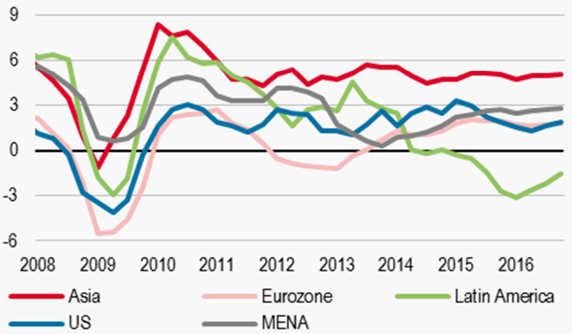
Initial data for 2017 confirms this positive development and one may be inclined to develop a rosier outlook. Just like the equity markets, which have surged. Such a conclusion, however, is premature given the uncertainty surrounding economic policy that was created by the US election outcome. There is a rebound to be cherished, but uncertainty has markedly increased as well. This, in short, is the story we will further elaborate in this chapter.

GDP growth begins rebound

As expected, global growth was exceptionally weak in 2016. GDP growth of 2.5% marks the lowest annual growth rate of the recovery of the global financial crisis. Both advanced and emerging economies contributed to the slide; the former somewhat more prominently. The advanced economies' growth of 1.7% (2015: 2.1%) compares to 3.7% in the emerging economies (4%).[1] These annual figures mask a more positive underlying trend visible in quarterly figures. Since mid-2016, quarterly GDP growth began accelerating. This holds for both advanced economies and emerging economies. The global economy, therefore, has shown signs of underlying strength in 2016, and this is expected to become even more manifest in 2017 and 2018 as we will see in this Outlook.

1.2 Most regions enjoying accelerating GDP growth

Real GDP, % change y-o-y



Source: IHS

Regionally, the strength was shown particularly in the US where temporary factors (inventory decline) pushed the first quarter to a low. Later on in the year private sector investment picked up and helped spur growth to more habitual levels. Growth in the eurozone was more stable throughout the year, helped by solid household spending. As a result, growth levels in the US and eurozone finished almost at par, 1.7% versus 1.6% respectively, though well below 2015 levels (2.6% for US and 1.9% for EU).[2] Latin America, and particularly the largest countries Brazil and Argentina, also showed resilience as both countries have started the process of pulling themselves out of recession. Meanwhile Asian growth has remained stable at 5.7%, leading the global pack by a wide margin. The slowdown in China is not dragging down regional data as India has taken over the role of global growth leader.

2017 and 2018: a hint of spring is in the air

As the second half of 2016 already announced departure from a rather harsh period in growth terms, in 2017 this trend is expected to continue. In particular, GDP in the US is expected to resume its more habitual pace at somewhat above 2%, supported slightly by new tax cuts. Eurozone growth will remain more or less at the same level, with support from the monetary policy and improving employment levels that underpin consumption growth. This brings up a mild expansion of economic activity in the advanced economies which is set to last into 2018. In the emerging economies, the ongoing slowdown in China will continue leaving its mark on Asian growth, as other regional heavyweights like India and Indonesia pick up. In 2017 the end of recession in a number of large emerging economies such as Brazil and Argentina in Latin America and Russia in Eastern Europe also helps global expansion, which is expected to be pushed up to 2.9% this year and 3% in 2018.

Table 1.1 Real GDP growth (%) – Major regions

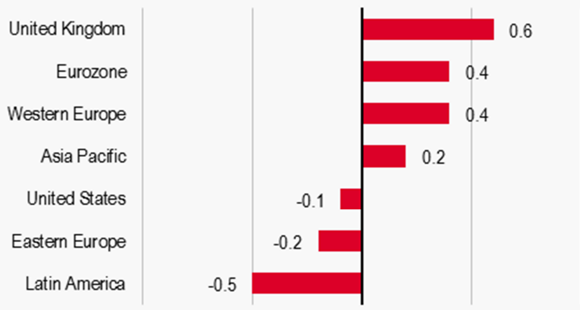
	2016	2017f	2018f
Eurozone	1.7	1.7	1.6
United States	1.6	2.1	2.4
Emerging Asia	5.7	5.7	5.6
Latin America	-0.6	1.6	2.6
Eastern Europe	1.7	2.5	2.7
Total	2.5	2.9	3.0

Source: Consensus Forecasts (May 2017)

With this picture in mind we note that the trend of more stable forecasts, signalled already in our November Outlook, has firmed. GDP growth forecasts are being revised less dramatically and the revisions are more balanced, as opposed to nearly all being downward. In particular, the forecasts have been revised upwards for Asia (+0.2 percentage points) and eurozone (+0.4) since September last year. For the US and Eastern Europe there were relatively minor downward adjustments (-0.1 and -0.2 respectively), with the forecast in Latin America being the outlier on the negative side (-0.5). One is inclined to interpret this as a signal of a more stable economic environment rather than significantly improved forecasting capabilities.[3]

1.3 More balanced revisions to growth outlook

Change in 2017 GDP growth expectations between Nov 2016 and May 2017



Sources: Consensus Economics, Atradius

Whereas growth figures across the board are improving, they remain muted. More specifically, whereas global growth in the period from 2000 up to 2008 was in the

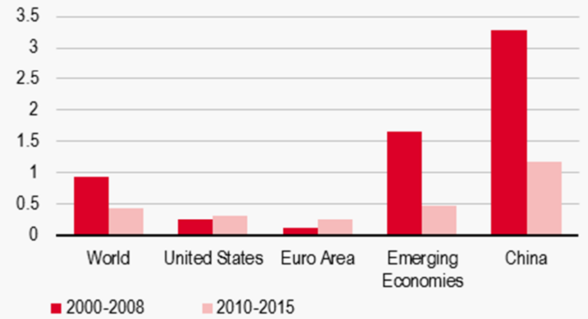
[1] These figures imply that the growth difference between advanced and emerging economies remains in the range of 2%, unusually low. Compare this with e.g. the pre-crisis year 2007 where the figure stood at around 5.5%.

[2] This is an unusual outcome, as US growth is habitually 1 percentage point higher.

[3] The consensus forecasts we use are built as an average of a fairly large number of individual forecasts. This lends support to the idea that rather than a big leap in forecasting capabilities the smaller and more balanced forecasts can be attributed to a more stable macro environment.

3.5% to 4% range since the financial crisis, it is actually a percentage point lower on average at 2.5% to 3%. The key long-term driver in this context is, apart from population (more specifically workforce) growth, the development of total factor productivity. In other words, to what extent have men and machine been able to work more efficiently together. Research by the IMF suggests that total factor productivity contributes significantly to output growth.[4]

1.4 Productivity growth slowing across EMEs
Total factor productivity, % growth y-o-y



Sources: Macrobond, Conference Board

Total factor productivity growth figures from the Conference Board show an interesting picture. On a global level, productivity growth has more than halved since the crisis. Whilst this may be more or less in line with expectations, the other key observations from the graph are clearly not. Productivity growth in the United States and the eurozone has slightly improved since the crisis (although being at a low level). Emerging economies' factor productivity growth on the other hand has seen a steep decline: recording a post-crisis average of only a quarter of its pre-crisis level and close to advanced economies' rates. For China this picture is even more pronounced. Indeed, productivity growth levels between the US, eurozone, and emerging economies, including China are converging. Productivity growth levels in emerging economies, and particularly China, are still at a higher level.

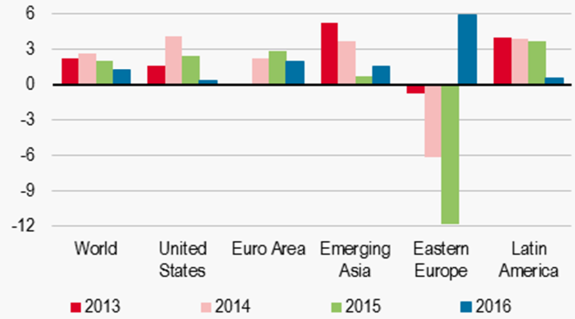
The slow, though slightly improved, productivity growth in the advanced economies can arguably be attributed to the lack of major technological developments. Then, after the financial crisis, factors such as tight credit conditions and weak corporate balance sheets, slow investments, lack of investment in intangible assets, misallocation of resources and protracted uncertainty have certainly also not helped. Neither have factors such as the slowdown of global trade and the maturing benefits of global supply chain integration. Still, the plummeting of factor productivity in the emerging economies and particularly China are difficult to understand with these arguments.

In this context, two potential explanations can be offered, apart from the suggestion that data issues may have overstated productivity growth before the crisis. Firstly, as productivity levels (rather than productivity growth) in the emerging economies remain below those in the advanced economies, the former economies have catching up to do. This process seems to have halted, or at least moved into lower gear. Diffusion of technology still appears to have a long way to go, an issue also suggested by recent research done by the Bank of England, though how exactly this came about is still unknown[5]. Secondly, the level of fiscal stimulus in China has been immense since the 2008 crisis: around USD 800 billion was pumped into the economy, and that was largely spent on infrastructure. As the IMF points out, such investments in buildings, roads and bridges , have a limited impact on productivity. This at least helps to explain the fall in productivity growth in China, and, in turn, emerging economies.

Trade growth: recovery is on its way

In November 2016 we had to report a rather depressing picture for global trade. July y-o-y figures showed only a marginal growth of 0.3%. Full year trade growth ended at 1.3% in 2016 – a very bleak figure, compared to the 2% measured in 2015, let alone the (previously) longer term average of 5.5%. Nevertheless, it is not as weak as feared back in November.

1.5 Trade growth recovery begins
Volume of goods trade, % change y-o-y



Source: CPB Netherlands Bureau for Economic Policy Analysis

Asia helped, showing significant resilience in the second half of 2016, and reversing a July red figure into 1.6% growth for the full year. It appears that the negative trade trend in Asia is bottoming out, following the meagre 0.5% growth in 2015. In spite of that, this figure is very, if not extremely, muted by Asian standards. A similar, even more pronounced, swing was observed in Eastern Europe, where full year data showed a healthy 6% growth, ending

[4] See Gone with the Headwinds: Global Productivity. IMF Staff Discussion Note. April 2017. For advanced economies the marked deceleration in productivity growth has contributed for 40% to lower GDP growth.

[5] Bank of England. Productivity Puzzles. Speech by Andrew Haldane at London School of Economics, March 2017.

three straight years of contraction. Meanwhile, eurozone trade growth figures were more or less steady over the year at 1.9%, only slightly lower than in 2015. US trade data were stable during the year, exhibiting no growth. Trade growth data from Latin America was very weak at 0.6%,showing the slide there is yet to bottom out.

As a potential indicator of reversal of fortunes, the Baltic Dry Index (1985 = 1000) has done a reasonable job. This forward-looking indicator climbed to over 1200 in late autumn from a trough of 300 earlier in the year, suggesting improvement. Since then, the indicator has upheld its level. By the end of March the Index even stood at 1300. Moreover, as a further sign of recovery, global export orders have been increasing since July 2016 at an accelerating pace. These indicators suggest that the worst in trade growth is over. Early 2017 trade growth data support this picture.

That provides some direction for assessment of expectations about trade growth forecasts for 2017 which indeed show improvement. The IMF expects 3.8% trade growth in 2017, the World Bank is similarly positive at 3.6% in 2017. The WTO however is more careful and uncertain, as the September 2016 forecast with a wide range of 1.8%-3.1% for 2017 remains in place so far. Atradius forecasts international trade to increase to 3.2% for 2017 and stabilise at 3.4% in 2018. For 2018 the World Bank expects the recovery to firm: 4% trade growth. Though by no means reversing the longer term average, recovery of trade growth is on its way.

The question that should be raised, is whether this is justified. To consider this, we should first shed more light on the 2016 figures. Why were 2016 trade growth figures so low? Elaborating on the World Bank,[6] we can use three umbrella factors: structural, trade liberalisation and cyclical. We add policy uncertainty.

Firstly, as to the structural development, in our November Economic Outlook we have already highlighted the role of China. It had become the 'world factory' and that coincided with boosted trade growth. As part of the process intermediate goods for a product often passed the border several times. This process has now shown signs of maturing, with China now producing more locally. A similar "slowdown" in global value chain participation is observed in Japan and the US.[7] There are simply natural boundaries to specialisation across countries and that brings trade growth into lower gear.

Secondly, the pace of trade liberalisation is under a lot of pressure, especially in the US and Europe. Indeed, one of the first acts of the newly-elected US president was to pull the US out of the Trans-Pacific Partnership (TPP). The new administration has also called for renegotiations of the North American Free Trade Agreement (NAFTA). The transatlantic TTIP has ground to a halt as well during 2016, reflecting predominantly European political developments. The Brexit referendum was also a show of negative sentiment towards trade liberalisation. In 2016, G-20 countries have taken more trade-restrictive measures than trade-facilitating ones. Distortions still take the form of subsidies and 'trade safeguard' measures most frequently,[8] but there is increasingly a shift towards more opaque measures, such as location requirements, export incentives and trade finance measures. Despite all this gloom, in January 2017 the Trade Facilitation Agreement (see Box 1.1) came into force.

Thirdly, under the cyclical header, there are several developments. A) With China playing an increasing role in the global value chain, the Chinese slowdown and rebalancing has a direct impact on trade. Chinese import demand is easing due to the shift towards less trade-intensive services. This has a significant impact on commodity volumes traded, notably those between China and Latin America. B) Commodity prices were negatively affected, negatively impacting investment in commodity outlays across the globe. Investments are trade-intensive and therefore trade is affected via that channel as well. C) Sluggish GDP growth has also not helped import demand and thus trade. Latin American trade growth was pulled down because of the ongoing recessions in its largest economies. Steady GDP growth within Europe, supported stable trade growth there. D) The oil price has recovered in 2016, but remains relatively low around USD 50 per barrel Brent. As the World Bank points out, the income loss that accompanies this is concentrated in a few countries whereas the benefits are more diffused. The net effect on trade is negative: the aggregate import increase in the oil-importing countries is lower than the import decline in the exporters. On the other hand, the trade growth reversal in Eastern Europe was supported by Russia creeping out of recession, supported by higher energy exports. E) Idiosyncratic factors such as the US dollar strength also played a role, at least in explaining the absence of any US trade growth.

Fourthly, there is economic policy uncertainty. World Bank research has shown that about 75% of the trade growth difference between 2016 and 2015 can be attributed to this factor (see Figure 1.6).[9] It is this uncertainty that affects GDP growth as firms and households choose to invest and consume less. Firms also delay entry into foreign markets, directly weighing on trade growth.

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[6] Global Economic Perspectives. Weak Investment in Uncertain Times. January 2017

[7] Idem.

[8] These can be used to temporary postpone imports.

[9] Trade Developments in 2016: Policy Uncertainty Weighs on World Trade, World Bank February 2017.

Box 1.1 The US and the global economy

These developments, or potential developments, in the US are a global affair.[1] The US is, after China, the world's second largest economy with 16% of global GDP in 2015 (in purchasing power terms). This share in global output notably has remained constant since the 1980s as other advanced economies waned. It accounts for 14% of global goods imports and 9% of global services imports. China (24%), the EU (20%) and Mexico and Canada (24%) are most prominent trade partners. The US is highly integrated into the global financial market with 80% of bond issuance and 50% bank flows in US dollars. Its foreign assets and liabilities are three times its GDP, broadly in line with other advanced economies. It is the largest source and recipient of FDI, with the EU and Canada heavily involved on both sides. Latin America (especially Mexico) is strongly reliant on US FDI inflows. The US is a large consumer and producer of commodity. It now has 13% of the global gas and oil production, which is a flexible source due to the supply structure of a large number of small, low cost, firms. At the same time, it is the largest consumer of gas and oil, and the second largest of a wide range of commodity, including aluminium, copper and lead.

With structural factors not easily changing and the political atmosphere in large advanced economies turned against free trade, recovery of trade growth in 2017 and 2018 should come from cyclical components. Though China will continue its slowdown and rebalancing, global GDP growth is expected to pick up, with investments recovering as well. Moreover, in large emerging economies such as Brazil, Russia and even Argentina, GDP growth is returning as well, supporting trade growth forecasts. High policy uncertainty, especially in the US, with respect to trade measures though, surrounds the forecasts with an unusual amount of uncertainty.

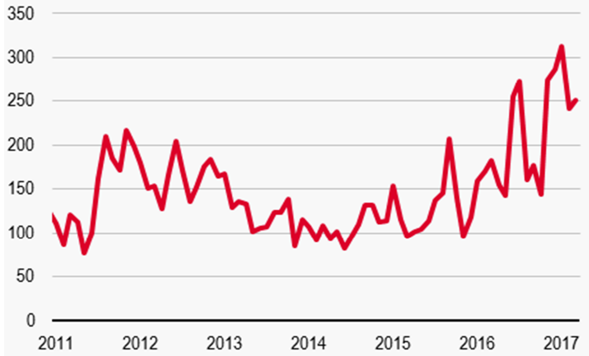
Policy uncertainty heightened

With the arrival of the new president winds of change have been felt in Washington DC, and across the globe. Being elected on a ticket that exploited discontent amongst those who feel they have been left behind in the globalisation process,[10] the US can be expected to turn more inward. The most significant potential policy changes are a more aggressive stance on trade (and firm localisation in the US), deregulation, a push on infrastructure as well as tax cuts and tax reforms. As a result, according to the US administration US growth could be pushed to 3-4% in the coming years with fiscal stimulus doing the major part of the job. This may seem to some degree appealing, but thus far a coherent policy framework to back up the campaign rhetoric has yet to materialise. With the administration's struggles to get a hold in the legislative process adding to this, economic policy uncertainty has been driven upward.[11]

Therefore, spill-overs from developments in the US could have potential impact on the global economy. In particular, a sustained 10% increase in the Economic Policy Uncertainty Index could affect the US growth by 0.15 percentage points (pp), spilling over to emerging economies by 0.2 pp growth reduction as firms delay investments, also negatively impacting trade. In this context, it can be argued that the Trump administration's contribution has been negative so far. The question then is whether we can expect the positives (or negatives for that matter) to come as contours of a policy framework become visible.

1.6 Policy uncertainty triples over 2016

Global news-based index, current price weighted GDP



Source: Baker, Bloom and Davis

The answer to this is probably that there will be a very limited, if any, impact in 2017 and 2018. First of all, on trade, pulling out of TPP and renegotiating NAFTA is one thing, but establishing agreements with other countries is time consuming. Disruptive measures such as tariffs on Chinese products could have short-term effects, but these will hurt US consumers and businesses as well whose effective lobbying could reduce the likelihood of this. Meanwhile, the campaign rhetoric could be effective in getting foreign governments to allow US firms less disruptive market access.[12] Secondly, there has been talk of USD 1 trillion infrastructure programme, but this appears off the table for the 2017-18 fiscal budget. In any event, given the time needed for planning procedures, any tangible impact cannot be expected before 2019.

[10] Though having lost the popular vote by an amazing three million it has been the heavy rallying of the Great Lake States in the closing days of the campaign that has reportedly swung the win towards Trump. Meanwhile the Clinton team was sitting on their hands complacently assuming victory in (what they thought were) Democratic strongholds.

[11] The failed Obamacare repeal attempts of late March that hit resistance form a Republican congressional minority were a case in point in this respect.

[12] It is noteworthy that the administration has already back tracked from qualifying China as a currency manipulator by referring such qualification to the result of a Treasury study yet to be published. That means the likelihood of such qualification (and starting bilateral discussion) has become low. China simply does not meet all criteria on trade balance deficit, current account deficit and persistent foreign exchange intervention to depreciate the currency (China has done precisely the opposite).

Thirdly, whilst the administration calls for a USD 54 billion defence spending increase, it comes at the expense of other items such as social outlays and environmental policy. This could give some mild fiscal boost, but Congress is unlikely to approve much of it.[13] Fourthly, with limited spending room, the same restriction will impose itself on tax cuts. Still some mild positive impact of reforms of the tax code can be expected. Our main scenario, therefore, is that the change in economic policy coming from the Trump administration will be rather limited, and so would be its (global) impact. Meanwhile, uncertainty about policy persists, although recent declines in the EPU indicator suggest such uncertainty is receding With that relief, pressure on GDP can fade as well.

The oil market is getting dull, for now

While our November Economic Outlook highlighted the fact that there is never a dull moment in the oil market, we are now observing a period of relative price stability around USD 50 per barrel Brent. This is driven by the decision of OPEC to limit its production in their November meeting, to 32.5 million barrels per day (b/d), more than 3.5% lower than October 2016 levels, in the first half of 2017. This marks the first production cut since 2008, and included a subscription from non-OPEC member, Russia. If upheld, the agreement will contribute to rebalancing supply and demand in the oil market in the first half of 2017 and even bring in tighter market conditions later in the year, supporting the price recovery.

1.7 Oil price stable after slight recovery
Brent crude oil, USD, monthly average

Sources: Macrobond, IMF

Our baseline scenario is that the OPEC agreement will hold, but over a longer period such agreements have proven notoriously difficult to comply with.[14] The previous strategy of unrestrained production in an attempt to reduce the US shale producer's share was doomed. Key oil producers ran into unsustainable government finance issues as their economies are still insufficiently diversified. We are therefore inclined to conclude that production restraints will remain in place, one way or another, putting a floor on the price.

Meanwhile, US shale production places a cap on short-term price rises around USD 60 per barrel. Rising prices have already led to a rebound in US drilling with over 700 oil rigs in operation in mid-May, up from a low of 316 in May 2016 and back to the April 2015 level. Deregulation by the US government should strengthen this as it brings down the cost of US shale production.

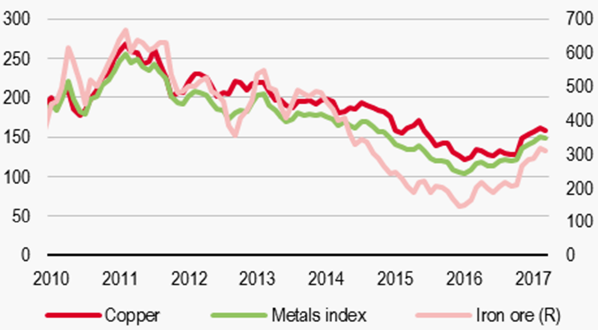
Oil prices, as a result are then bound to become somewhat dull, moving within a corridor of USD 50 to USD 60 per barrel over the forecast period. Having said that, we are well aware that the oil price remains notoriously difficult to predict and prone to short-term volatility, e.g. due to political instability in producers such as Iraq, Libya, Nigeria and Venezuela.

As to the underlying trend of the oil price, one should remember that due to increasing demand from emerging economies, as their economies move up the income ladder, the oil price is bound to go up. This demand pull is so strong that it will require investments in more difficult resources such as tar sands and deep sea. To trigger these, the oil price has to rise, not in the current forecast period but in the medium- to long-term.[15]

Commodity prices: out of the woods

Since the beginning of 2016, prices started gradually recovering from all-time lows, confirming our previous Outlook's prediction that the worst was over. Price increases have been accelerating since October 2016. While the overall metals index increased by 50% on an annual basis, for copper and iron ore, price increases accelerated to more than 125% and 200% respectively from November to early March this year.

1.8 Global commodity prices gradually recovering
Index, 2005 = 100



Sources: Macrobond, IMF

[13] See IIF, US Economic Update Looking Towards 2018.
[14] Global Economic Prospects. World Bank. January 2017.
[15] A more extended analysis can be found in Oil and gas market. Atradius Economic Research, January 2017.

These price increases were driven by the corresponding global economic recovery. Production increases in the construction and automotive sectors, for which metals is an important input, have underpinned prices. Mild Chinese stimulus for the construction and property sectors continues to support prices. 51% of global commodity demand comes from China so developments there are critical for prices. Prices were further driven up by supply-side adjustments for a number of commodities. China has announced that it will reduce its aluminium smelting capacity. Strikes in Chile, heavy floods in Peru and a dispute over property rights in Indonesia have supported copper prices. General prices have also received support from a somewhat weaker US dollar in the early months of 2017. Commodities are priced in USD, and thus a weaker dollar lowers the commodity price in local currency.

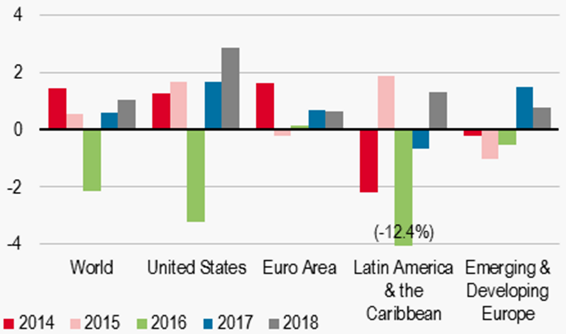
With global activity picking up, investor sentiment is positive, strengthening the outlook. But questions around the extent of capacity reduction cloud the outlook. Global steel utilisation rates for making crude steel, as well as intermediate steel products, is still significantly below its long-term average. Particularly Chinese steel production capacity reduction is a work in progress. Furthermore, a more protectionist US policy may reduce commodity trade and demand, most critically from China. Whilst that is not our main scenario, it highlights the uncertainty for the commodity market's positive outlook.

Unusually low investment expected to rebound faintly

Low and declining investment was one of the main features of economic activity in 2016. At the global level, the share of investments to GDP shrank almost 2%. Emerging Asia (-2.5%), Eastern Europe (-3%) as well as Latin America (-7%) pulled the investment figure in the red, just like – surprisingly – the US (-3%). Only eurozone investments escaped the general dismal picture (+1%).

1.9 Investment rebounding faintly

Y-o-y % change in investment as a share of GDP



Sources: Macrobond, IMF WEO

These figures imply that global GDP growth has been consumption-driven.[16] This is straightforward for emerging Asia, Eastern Europe and the United States, where GDP growth was positive. GDP growth exceed investment growth in the eurozone, whereas in Latin America the GDP shrink was far below the one of investment. In short, investment growth has been weak, most notably in emerging economies.[17]

This is driven by several factors. Firstly, large emerging economies (China, Russia, India, Brazil and South Africa) have seen pronounced investment slowdowns in line with slowing and/or contracting GDP growth. China, accounted for more than one-third, Russia and Brazil together for another third. Secondly, exporters in the energy sector as well as metals and other commodities still face low commodity prices and overcapacity. Thirdly, FDI inflows to commodity importers have been weak as GDP growth in advanced economies has been anaemic. Fourthly, heightened uncertainty, such as geopolitical tensions in Eastern Europe, serious security and political issues in the Middle East and domestically (e.g. Brazil) have also weighed on investment. Policy shifts in the US and Europe further contribute. As some of these factors will change for then better, so will investment growth.

The investment slump is striking because it comes when infrastructure, as well as education and health systems are struggling to keep up with the pace of economic development. Moreover, commodity exporters require investments to shift diversify their economies. Increasing investment, therefore, is badly needed but only a faint rebound is expected. Whilst the investment slowdown in China is continuing, investment in Russia and Brazil is expected to pick up as the countries recover from recession and the global economy improves. Oil and commodity prices, are on their way back up, and investments, especially in the energy sector, will rebound, albeit gradually. With growth in advanced economies picking up, FDI is expected to pick up as well. Heightened uncertainty, on the other hand, is not expected to change much, although the US economic policy uncertainty may gradually soften. This bodes for a weak rebound across the regions, with investment growth in Asia negative, dragged down by the Chinese slowdown.

Larger role for fiscal policy?

Despite our scepticism as expressed in the November Outlook fiscal policy has been somewhat more supportive in 2016. As the IMF Fiscal Monitor observes, advanced economies have eased their fiscal stance by one-fifth of a percent in 2016. That seems almost negligible but it does mark a break with a five-year consolidation trend (see

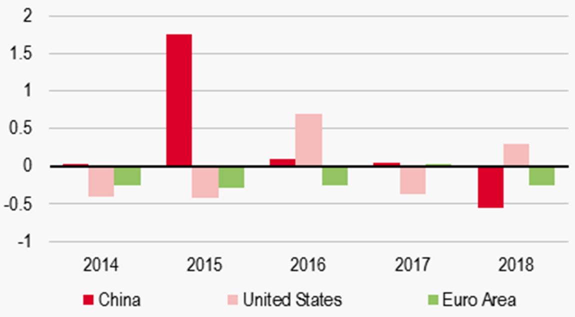
[16] See also BIS Quarterly Review, March 2017.
[17] Low US investments in 2016 have been attributed to pressure on profits (also due to the dollar strength) and uncertainty as to the tax reforms. See IIF Global Economic Monitor, December 13, 2016.

Figure 1.10). The eurozone fiscal stance was slightly contractionary, although Italy, Spain and, to a lesser extent, Germany, have provided some fiscal support. For China, 2016 was another year of mild fiscal stimulus.

The main reason for support was the uncertainty surrounding their economic recoveries on top of concerns over medium- and long-term growth, triggering a need for public investment, especially in infrastructure. In Germany fiscal support was laid out to achieve social objectives such as pension outlays and refugee-related spending. Fiscal support in China is aimed at reducing the negative impact of reforms to reduce financial vulnerabilities in the corporate and household sector. Essentially, of these three main economic blocs, China is the only country providing consistent fiscal support.

1.10 Fiscal stance slightly more supportive

Absolute change in government primary balance, percentage points



Sources: Macrobond, IMF Fiscal Monitor

For 2017 such fiscal support may not be needed in China, which reflects in the expected mildly contractionary fiscal stance. For the eurozone a similar picture is observed. In 2018, some of the Trump administration tax reform will become visible, although the strength of these measures may turn out to be limited. This means that fiscal support for the global economy remains weak, despite a very low interest rate environment that suggests some room for such support. In a sense, if the global economic recovery will turn out as robust as now envisaged, using this fiscal space,[18] may not be needed. Even better, authorities may want to keep their powder dry.

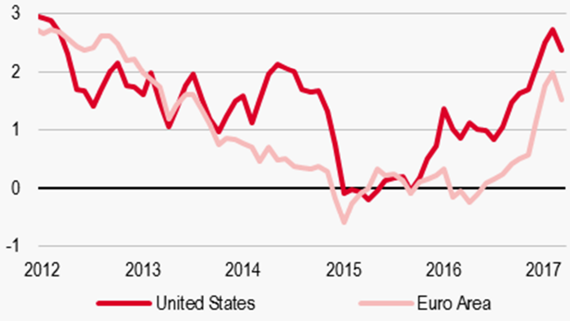
Monetary policy to stay lax with inflation target in sight

In previous Economic Outlooks we have emphasised the dangers of the low inflationary environment that many advanced economies were in. Inflation even flirted with negative numbers at points in the US and the eurozone. Combined with near- or even below-zero nominal interest rates, fears of positive real interest rates arose, putting a brake on investment and consumption. Precisely these variables were targeted by the central banks, particularly in the US, with their super-lax monetary policy of quantitative easing and ultralow interest rates. Monetary policy seemed trapped.

Since late 2015 though, inflation has been edging upwards, in both the US and the eurozone. In February 2016 headline inflation exceeded 2% in the US and approached it in the eurozone. This suggests inflation is approaching targets levels (usually 2%). The rise was supported by higher oil and commodity prices, a base effect of low inflation in the period used for comparison, and finally, stronger GDP growth observed since the second half of 2016. This raises the question of how robust the higher inflation levels really are.

1.11 Headline inflation approaching target range

Index, % change y-o-y



Sources: Macrobond, IMF IFS

The answer: probably not much so. Whereas we can have some confidence in the global recovery, the base effect will disappear and oil and other commodity price rises will only gradually recover. The so-called core inflation, which excludes food and energy prices, has barely budged recently, staying well below the target level. Moreover, inflation surveys suggest that, whilst inflation expectations have moved up, they remain feeble.[19]

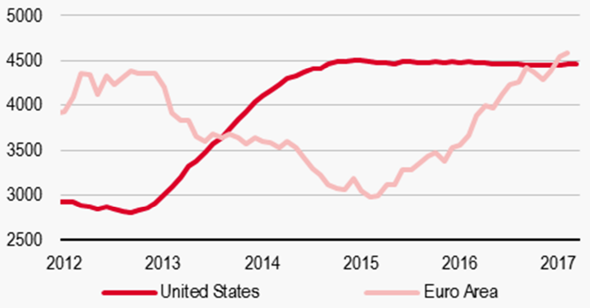
The implication for monetary policy in the US and the eurozone is that it will most likely remain lax for the outlook period. Still, the signs for tightening are there. This is most prominent in the US, where interest rates have been raised three times since December 2015. This remains a very gradual tightening though, with small steps of 0.25 pp and no sale of previously-purchased assets. Therefore, the Fed balance sheet remains blown up (see figure 1.12). The ECB is still purchasing assets as part of its quantitative easing programme, although it has meanwhile brought down the pace from EUR 80 billion to EUR 60 billion per month. Policy rates have not yet budged.

[18] See box 1.4 of IMF Fiscal Monitor April 2017. As the difference between the interest rate and growth rate narrows, there may be more fiscal space, especially if the narrowing is considered permanent. For instance, debt space can be up by 10-40% on a permanent 1% lowering of the difference between interest and growth.

[19] IMF World Economic Outlook, April 2017.

1.12 Central bank balance sheets

Reserve assets, USD billion



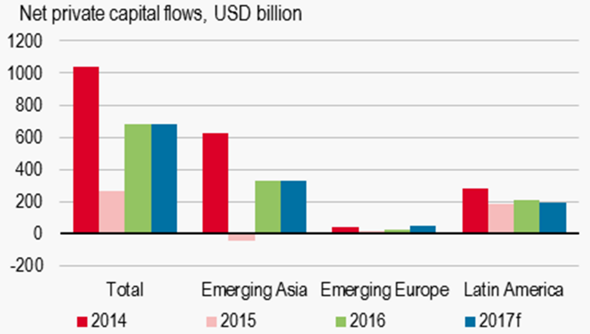
Sources: Macrobond, IMF IFS

The Fed is expected to continue its rate hiking path now that the US inflation and jobs data continues to come in positive. Still, only two small rate hikes are expected in 2017 with a similar path followed in 2018. For the ECB, the quantitative easing first has to stop, which could be by the end of 2017. But that is surrounded by uncertainty given the frailty of the inflation data so far. Rate hikes are not expected before the end of 2018 at this moment in time. Monetary policy, therefore, is expected to remain lax and central banks are moving carefully.

This as such provides relatively good news for capital flows to emerging economies, but it should be weighed against the negative impact of the increased level of (economic policy) uncertainty. The net impact is then that the level of capital flows towards emerging economies is expected to be stable in 2017, though at a low level compared to more common levels around USD 1 trillion.[20] FDI remains under particular pressure (especially in emerging Asia and emerging Europe), falling from USD 560 billion in 2014 to an expected level of USD 390 billion in 2017. Regionally, capital flows are broadly expected to hold up in 2017 compared to 2016. The majority of capital (USD 330 billion forecast in 2017), therefore, continue to flow into Asia. The other sizeable chunk goes into Latin America (USD 192 billion). Barring unexpected monetary policy changes in the US, therefore, capital flows towards emerging economies will remain stable.

1.13 Capital flows to EMEs stable

Net private capital flows, USD billion



Source: IIF

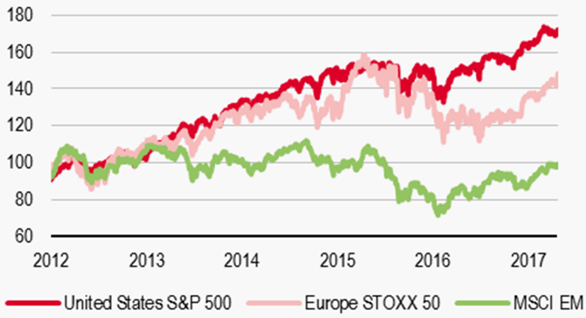
[20] Capital Flows to Emerging Markets. Eye of the Trumpstorm. February 2017.

Another risk from financial market exuberance

Following the US election there has been a surge in share prices. US share prices have risen 40% on an annual basis, followed by European shares 32%. The MSCI emerging markets index went up 16%, gaining strength after an initial decline in the aftermath of the US election. Moreover, the volatility of stocks, as measured by the VIX, is at lows hardly seen since the global financial crisis. In the US at least there were clear winners (defence, construction, financials, manufacturing, small firms) and losers (import-intensive sectors).[21]

1.14 Share prices increasing across major regions

Equity price indices, 2012 = 100



Source: Macrobond

These financial market movements are remarkable for a number of reasons. Firstly, they took place in an environment where long-term rates were gradually climbing, especially after the US elections. The Fed rate hikes that push up the underlying short-term rates and the expectation that fiscal stimulus in the US will drive up the longer-term rates directly because of the perceived additional needs of the US government. Either way, the higher yield is supposed to pull money into the longer end of the fixed income market, away from other assets.[22] Secondly, during the period of share price increases, earnings growth expectations, particularly in the US and the eurozone, have not been increasing[23]. Thirdly, the GDP growth outlook, though improved, has barely changed since the autumn. With this in mind, financial markets seem exuberant, to say the least.

Therefore, unless financial markets know what economists do not know, which is possible but not likely, a correction of share prices is a real possibility. This could put a brake on spending and thus economic growth. In that sense financial market exuberance poses another risk for the global economy.

[21] This reflects promises from the Trump campaign: deregulation, fiscal stimulus through tax cuts as well as infrastructure investments and protectionism.
[22] Although there may be a contrarian effect if existing asset holders pull out of the bond market as yield rises imply price declines and loses to avoid.
[23] See OECD Interim Economic Outlook, March 2017.

Risks to the Outlook

The picture of what we see as risks to the Outlook has somewhat changed with the increased uncertainty due to the political developments in the US since the election of Donald Trump. There are in particular two changes compared to the November Outlook. The first one concerns the risk of a series of protectionist measures in the US, the second a correction of the exuberant developments in the financial markets. The former is now a specific concern, replacing the earlier concerns about the lack of a trade recovery. The latter is now more prominent that the rapid rise in the oil price, which has somewhat faded. The five most important risks to watch out for are presented in the table below.

US protectionism. Under such a downside scenario, the US indeed turns further inward. Particularly the cross border adjustment tax of figures in the range of 30% that circulate would be damaging for trading partners of the US, but also the US itself as it will hit US firms that are part of the global value chain. Counteractions by trading partners, specifically China, would follow suit, potentially spurring a trade war. The dollar moreover, is supposed to surge under this scenario, undoing a large part of the protectionist impact of the tax.

Misguided Fed policy. Due to the global impact of the Fed policy measures this is still a risk, although the Fed has thus far been careful with rate hikes and has found a means to communicate effectively with the financial markets. Still, the Fed may be forced to act and hike the interest rate more aggressively or earlier under a scenario in which US fiscal policy is becomes much more supportive for the US administration's growth targets around 3%. As discussed before, higher US rates could trigger capital flows away from the emerging economies, hampering finance and growth opportunities.

Eurozone growth fall. The eurozone has now been growing for a number of years, but growth levels remain low. There are still a number of fundamental issues, such as the weakness of the banking sector in one of its main countries, Italy. Moreover, credit growth is still restrained and unemployment, though improving, is still twice the US rate. Greece can still not stand on its own. With political uncertainty heightened, a populist win (not our main scenario) could severely dent confidence and thus consumption, the current growth driver. A return to a recessionary environment is then likely and that is exactly what is not needed at this stage.

China hard landing. The Chinese authorities have proven consistently able and willing to uphold the GDP growth figures that were set for the economy. As we have argued they have the fiscal and monetary space to act. Therefore, the likelihood of a hard landing, which has never been an Atradius main scenario, has moved further away. Nevertheless, the vulnerabilities in the economy, such as debt levels have continued to grow. That would make the impact of a hard landing all the more pronounced.

Financial market correction. The surge in equity price following Trump's election is unlikely to be sustainable as – with unchanged profit levels in the corporate sector – the price earnings ratio has moved up significantly. A correction is therefore likely. This is unlikely to be gradual as that is not characteristic for financial market correction. What we do expect still is that it remains relatively mild, increasing volatility, but not to crash levels. In such scenario, the impact may be limited. Otherwise, firms as well as households may react by restraining spending. With overall demand just recovering, that is unwanted.

Table 1.2 Risks to the global economic outlook

	Risk	Symptoms	Effects	Probability	Impact
1	US protectionism	Trade barriers such as tariffs or targeted restrictions introduced	Severe constraints on trade with US	low	high
2	Misguided Fed policy	Financial market turbulence, flows to emerging economies plummet	Tighter credit for firms in emerging economies	low	high
3	Eurozone growth fall	High uncertainty due to political situation in France, Italy and/or Greece, confidence plummets, bank lending turns negative	Low growth, probably recession, further pressure on EU integration, pressure on trade growth	low	high
4	China hard landing	Unstable banking sector, credit constraints, acceleration capital outflows, pressure on currency	Financial market volatility, spill over into dependent (REM) economies	low	high
5	Financial market correction	Strong, rapid and sustained correction on equity markets	Fall in confidence, affecting spending. Negative wealth effects households affecting consumption	moderate	high

Source: Atradius Economic Research

2. Advanced economies – prospects and risks

Table 2.1 Real GDP growth (%) – Major markets

	2016	2017f	2018f
Eurozone	1.7	1.7	1.6
United States	1.6	2.1	2.4
United Kingdom	1.8	1.7	1.4
Japan	1.0	1.4	1.1

Source: Consensus Forecasts (May 2017)

Upswing clouded by policy uncertainty

After many years of disappointment, advanced economies exceeded growth expectations in 2016. In the eurozone, UK and US, private consumption is the main engine of growth while higher-than-expected exports are pushing up Japanese GDP. The 2017 outlook has improved compared to the November Outlook.

Momentum has been picking up since H2 of 2016, supported by increasing manufacturing and higher confidence. This upswing is in the midst of unprecedented political uncertainty: there are several high stakes elections across Europe including the UK in 2017, and US policy under the new Trump administration is largely unpredictable. These pose downside risks to the growth forecasts, especially into 2018. Uncertainty may begin to weigh on confidence and investment while rising inflation damages purchasing power. Monetary policy remains very accommodative across all the discussed advanced economies, but tightening in the US and tapering in the eurozone may further constrain financing in 2018.

Eurozone growth firming

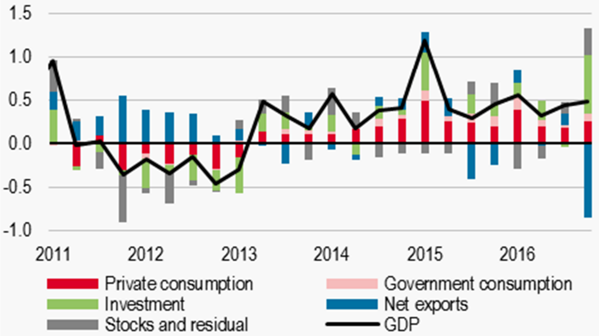
Supported primarily by domestic demand, economic growth in the eurozone is expected to firm in 2017. Economic activity is expected to expand by 1.7% this year, which is 0.4 percentage points higher compared to

November's Economic Outlook. The Economic Sentiment Indicator (ESI) hit a ten-year high of 109.6 in April, supporting the projection of robust GDP growth in 2017. A similar upbeat outlook is given by the eurozone PMI, which hit a six-year high of 56.7 in April.

Last year, economic activity in the eurozone rose by 1.7%. Growth benefitted from low inflation, low energy prices, employment growth and the lagged effects of the euro's past depreciation. Growth picked up in late 2016 underpinned by robust consumption and investment growth, which are expected to continue supporting growth in 2017.

2.1 Eurozone growth accelerated in 16Q4

GDP and components, seasonally-adjusted, q-o-q %



Sources: Macrobond, Eurostat

In 2017, the fastest-growing economies in the eurozone are expected to be Ireland (4.0%), Spain (2.7%), the Netherlands (2.2%) and Portugal (1.7%). Growth in these member states is strongly underpinned by domestic demand, housing market recoveries and improving financial conditions. Growth conditions are improving but conditions in Italy (0.9%) and Greece (1.2%) are improving but continue to be constrained by high unemployment, debt overhang and high NPLs.

Table 2.2 Real GDP growth (%) – Major markets

	2016	2017f	2018f
Austria	1.5	1.7	1.6
Belgium	1.2	1.5	1.6
France	1.1	1.4	1.5
Germany	1.9	1.6	1.6
Greece	0.0	1.2	2.1
Ireland	5.2	4.0	2.8
Italy	0.9	0.9	0.9
Netherlands	2.2	2.2	1.8
Portugal	1.4	1.7	1.5
Spain	3.2	2.7	2.3
Eurozone	1.7	1.7	1.6

Source: Consensus Forecasts (May 2017)

External environment is improving

With global growth expected to pick up, eurozone export growth is also expected to accelerate slightly in 2017 and to continue this growth in 2018. Exports are benefitting from the modest rebound of growth in advanced economies in 2017 and some firming in emerging markets.

Since the US election, the euro has depreciated somewhat against the dollar on the back of expectations of faster US monetary tightening. In Europe, monetary policy is likely to remain accommodative, with asset purchases continuing until at least December 2017 and policy rates remaining low beyond this. The relatively weak euro is expected to continue to provide mild support to exports. At the same time, however, the slight monetary policy divergence is already largely priced in, so that no further decline of the euro relative to the dollar is expected.

The external environment remains subject to exceptionally high uncertainty with the balance of risks tilted to the downside. While the negative economic effects of the Brexit vote have so far been limited, uncertainty will increase this year now that the UK has triggered Article 50. Trump protectionist policies could prove a downward scenario for the eurozone since the US is the bloc's largest trading partner. Political uncertainty is also an internal problem: 2017 is marked by elections in various European countries, with various Eurosceptic parties to be among the likely winners (see also Box 2.1 on eurozone breakup risk).

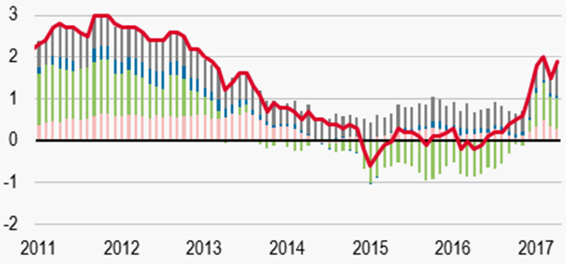
Domestic demand picking up

Private consumption was the key driver of GDP growth in 2016. This is likely to continue in 2017, with consumption growth being underpinned by rising employment and reasonably low inflation. The savings rate is expected to have a neutral effect on consumption growth. However, the inflation rate will increase to 1.6% in 2017 compared to 0.2% last year, which should dampen the growth of real disposable incomes. We therefore expect that consumption growth will be somewhat lower in 2017 compared to last year.

While inflation has increased in recent months, this was mostly driven by energy and food price inflation. Core inflation – which excludes energy, food, alcohol and tobacco – remains subdued at 1.2% in April. An important source of weak underlying inflation is subdued wage growth.

2.2 Eurozone inflation picks up

Contributions of components to HICP inflation



Sources: Macrobond, Eurostat

Wages in the eurozone have been growing at a moderate rate of 1.5% since early-2015 (the long-term average is 2.1%), while employment has increased considerably. Labour market slack is one important explanation of why wages have thus far failed to pick up more strongly. A stronger labour market attracts discouraged workers back into the labour force, or encourages those underemployed to seek more hours.[24] Another explanation is that it takes time for inflation to feed into wages, and given the below-average inflation rates over the past few years, wage pressures are still very low. Over the next years, accelerating wage growth is expected to gradually feed into core inflation.

With consumption growth declining slightly, investment is becoming more important for GDP growth. Financing conditions are favourable, which supports deleveraging and profit margins. Investment in housing and construction is rising on the back of housing market recoveries. Business investment growth is gaining momentum as overcapacity is reduced. However, there is a number of structural issues which hinder investment growth from picking up more strongly. There is still more deleveraging needed in some member states, insufficient profitable investment opportunities and high uncertainty.

Budget balance and debt-to-GDP ratios of eurozone member states have improved considerably over the past years due to economic expansion and historically low interest rates. While fiscal policy is no longer contractive at the eurozone level, it is not contributing to growth either. Countries with fiscal room should increase public spending in order to contribute more to eurozone growth. The only countries with sufficient space are Germany and the Netherlands (see Figure 2.3).[25]

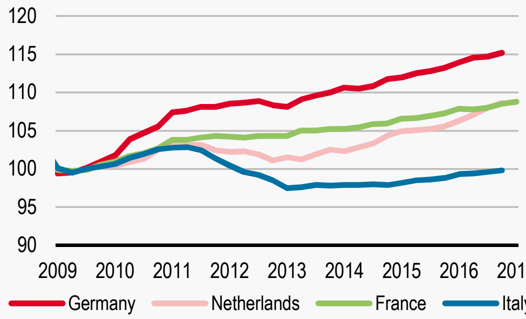
Box 2.1 Eurozone breakup risk

Globalisation, economic integration, the inflow of refugees and dissatisfaction with mainstream politics are a number of important themes that run as a common thread in Europe's election year. Eurosceptic parties are likely to gain seats in these elections and several openly support an exit from the eurozone. Even though most Eurosceptic parties are not expected to enter a position of ruling authority their voices will be heard more clearly in national parliaments. If the Brexit referendum has shown one thing, it is that the project of European integration is not irreversible. In an attempt to reinvigorate the debate about the future of Europe, the European Commission published a White Paper[1] in which they put forward five scenario's for how Europe could evolve by 2025. The starting point for each scenario is that the member states stay together as a union. The scenarios vary from focusing attention and resources on a reduced number of areas to doing much more together across all policy areas.

We still consider the chance of a Eurozone breakup to be remote. However, if a disorderly disintegration of the eurozone would take place, comes at enormous economic and social cost. Anti-EU and especially anti-euro sentiment is fairly strong in countries that have suffered most from the 2008-09 economic crisis, such as Italy and Greece. In the medium term we should be most worried about Italy, which has a public debt-to-GDP ratio of 132.8%, slow economic recovery and a struggling banking sector.

Italy's recovery lagging that of peers

GDP constant prices, seasonally adjusted, 2009=100



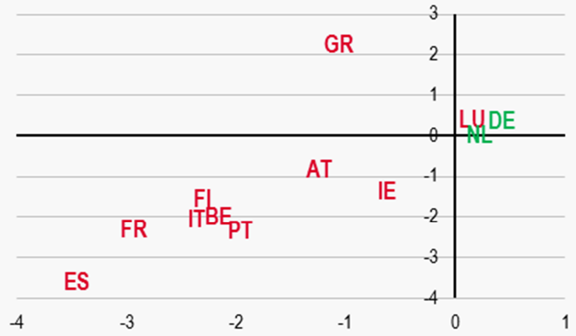
Sources: Macrobond, Eurostat

Given it is the eurozone's third-largest economy, it would be too big to bail-out in case of a debt crisis. In a reflection of the precarious state of the Italian economy, sovereign yields have been increasing gradually since mid-2016. Our base case scenario is that a pro-EU coalition will emerge in Italy after next year's general elections. However, given the popularity of the Eurosceptic Five Star Movement – which is polling 30% of the vote – a scenario in which they force a referendum on the euro with the backing of other Eurosceptic parties, cannot entirely be ruled out.

[24] Monetary policy and the economic recovery in the euro area, Speech by Mario Draghi at The ECB and Its Watchers XVIII Conference, Frankfurt, 6 April 2017
[25] Their budget deficit is smaller than 3%-GDP, they are making sufficient progress towards compliance with the EU debt criterion (60%-GDP) and they comply with their country-specific Medium-Term Objective for the structural budget balance (the actual budget balance adjusted for the economic cycle and one-off income or expenditure)

2.3 Germany and Netherlands have fiscal space

2017f fiscal balance (X-axis) vs. structural balance (Y-axis), % GDP



Sources: Macrobond, EU AMECO

As several studies[26] show, public investment can have strong positive spillover effects, especially now that interest rates are at the zero lower bound. Germany in particular is a good candidate for higher public investment, given that it has favourable fiscal metrics and suffers from serious backlogs in infrastructure maintenance. The Netherlands also has fiscal space to step up public investment, although the composition of this spending should be more directed towards education and public R&D.

Uncertain US outlook facing balanced risks

On January 20, a political outsider was inaugurated as President of the United States. While the policy direction of the Trump administration is still murky, the US economy is gaining steam. The short-term effect for the US and, in turn, the global economy is slightly positive but beyond 2017, uncertainty and policy misdirection may weigh on these forecasts.

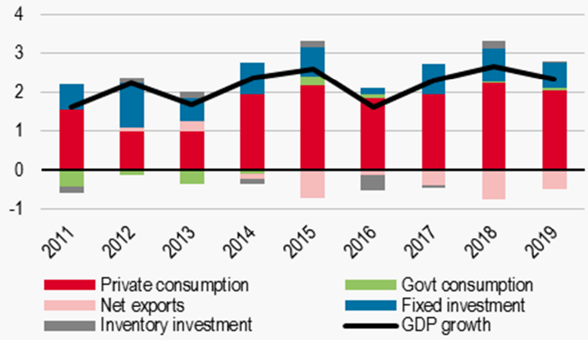
US economy is on solid ground

Since H2 of 2016, GDP growth has been picking up in the US, due in part to the cyclical recovery in inventories, solid and steady consumption growth, and improving business confidence based on assumptions of looser fiscal policy from the Trump administration. Higher confidence and its expansionary impact on private consumption and investment are likely to continue and accelerate growth to 2.1% this year.

[26] In 't Veld, J. (2016), Public investment stimulus in surplus countries and their Euro Area spillovers, European Economy Economic Brief, August 2016. Abiad et al. (2015), The Macroeconomic Effects of Public Investment:
Evidence from Advanced Economies, IMF Working Paper WP/15/95

2.4 Little short-term impact from fiscal stimulus

Components of GDP growth, %



Sources: IHS, Consensus Economics

The labour market is the strongest it has been since the crisis and concerns about slack have eased. The most recent jobs report shows that unemployment fell to 4.4%, the lowest figure since 2007. Wage growth is moderate at 2.5% year-on-year and job creation is robust. But there are still concerns with respect to the labour force participation rate, now at 62.9% compared to 62.8% in November.

In this environment, the Fed is likely to follow a more rapid monetary policy normalisation path than expected in the November 2016 Outlook. On top of the tightening labour market, price pressures are also pushing up. Headline inflation has been above 2% since December 2016. With tax cuts and the associated boost to confidence, demand is increasing, pushing up price inflation. Since the election of Trump in November 2016, the Fed has nudged up the main policy interest rate twice, now in a range of 0.75% to 1%.

The trend of higher inflation expectations has reversed course slightly as oil prices stabilise and fiscal stimulus will be milder than expected. Bond market expectations now point to 1.8% price growth over the coming five years. With solid fundamentals and still positive jobs data, the Fed will likely maintain its course to raise rates another two times this year, but the small risk of moving too quickly that it could have a destabilising effect on the global economy has eased.

New administration's unpredictable policymaking

Trump's campaign rhetoric promised to shake up nearly the entire policy spectrum, but his actual policymaking is highly uncertain – in terms of what he actually pursues and what he is able to accomplish unilaterally or gain support for. With power divided between the executive, legislative, and judicial branches of government, the president is constrained and has largely stepped in a more moderate and pragmatic direction. It appears increasingly likely that it will be business as usual in 2017 but policy changes could start translating to the economy in 2018 and beyond.

Policy uncertainty marks a significant risk to the US economic outlook. There are both upside and downside risks, primarily on demand, potential output, the fiscal balance and the value of the USD. Global spill-overs are thus also uncertain. In the short-term, a more traditional stance by the new administration should ensure stability.

Trade policy thus far focuses on stricter enforcement instead of radical overhaul

On the campaign trail, protectionist rhetoric was a focal point. President Trump made good on some promises at the beginning of his term – most notably withdrawing from the Trans-Pacific Partnership (TPP). But since then, the administration has generally taken a more moderate stance.

Trump has softened his approach on China, backtracking on his past promise to label China a currency manipulator. Alongside an uneventful summit between the US and Chinese presidents, it appears a more traditional trade policy will be followed and tensions between the world's two largest economies have eased slightly. Furthermore, the traditionally free-trade advocating Republican Party and influence of multinational corporations should restrain actions that may spark a trade war with China.

The threats to withdraw from NAFTA and the WTO appear empty as well. Renegotiation of NAFTA is beginning, but preliminary plans show that the focus will be on adding some provisions on subjects like cross-border data flows and enforcing intellectual property rights. Instead of a radical overhaul, it is looking more like tweaks to the current arrangement, largely in line with Obama administration goals in the TPP. Furthermore, business interests tied to highly-integrated supply chains will also challenge any policy impositions that could hurt business. Overall, the new administration seems to be taking some 'protectionist' steps, but largely through stronger enforcement of already existing rules.

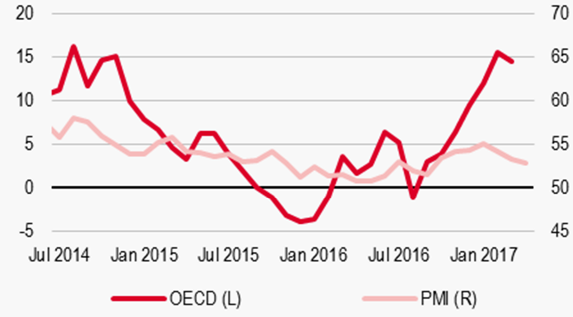
Fiscal policy not living up to promises

Fiscal policy – particularly tax cuts and a trillion dollar (public-private) infrastructure investment – was another hallmark of Trump's campaign. As expected, the ambitious spending plans appear increasingly unlikely, at least for the 2017-2018 Federal budget, in part due to fiscal conservatives within the Republican party.

Tax cuts, on the other hand, align with Republican orthodoxy, so they are more likely to pass in the new US budget. An outline proposes a reduction in corporate and individual tax rates to 15% from 35%. Combined with promises of deregulation, business confidence has rallied to several-year highs. In 2017, industrial confidence has begun easing though, as the outlook for stimulus becomes more cloudy, but business expectations remain optimistic.

2.5 Confidence rally easing, but still optimistic

Manufacturing PMI (50 = neutral) vs. OECD Manufacturing confidence indicator (0 = neutral)



Sources: Macrobond, Markit, OECD MEI

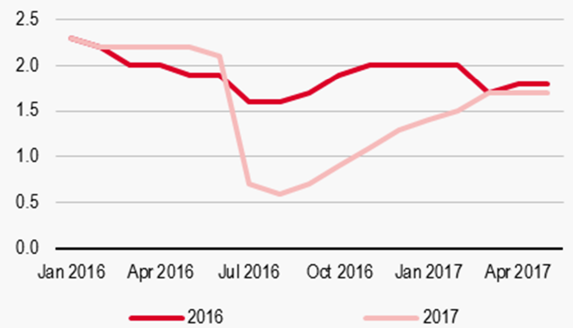
Direct benefits though may take some time to feed in to the economy but higher confidence is already contributing to higher growth this year. We expect reductions in personal and income tax burdens to really stimulate spending and GDP growth in 2018 and 2019. The predicted economy-wide impact is shown in Figure 2.4, as the green bar widens in 2018 and 2019. However, medium-term stability could be a concern as at this point there is no meaningful way to counter the widening deficit that Trump's tax plan would create.

First Brexit effects feeding into UK economy

Following a smooth political transition and decisive monetary policy support in the aftermath of the June 2016 Brexit referendum, the UK economy has proven resilient. As presented in Figure 2.6, UK economic performance has been surprising to the upside, rebounding from sharp downward revisions in July 2016. Year-end growth was revised down to 1.8% due to revisions to the historical series but the year closed strongly, with confidence and spending high.

2.6 UK growth outlook resilient

Annual GDP growth forecasts, monthly developments

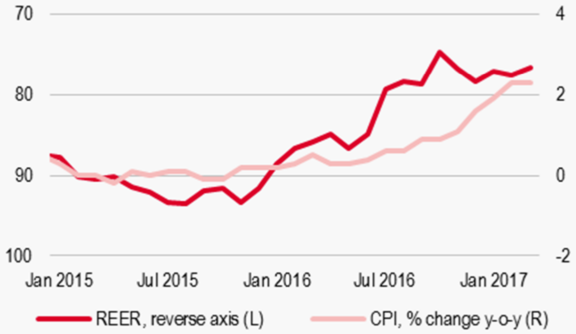


Sources: Consensus Economics, Atradius

As the IMF noted in its April 2017 World Economic Outlook, it appears that the negative effects of the decision to leave the EU are materialising "more gradually" than previously anticipated. Aside from strong confidence and a rosy outlook, the real economy is expected to face some pain from the weakening pound. As shown in Figure 2.7, the pound has been weakening steadily since late 2015. Thus far this has stimulated export growth, but it also makes imported goods and services relatively more expensive, reducing the purchasing power of UK consumers and businesses. This is likely to feed in to slightly lower GDP growth this year and further in the medium term. The adverse impact that uncertainty has on investment should also weigh on growth. The Brexit outlook though has become increasingly clearer.

2.7 Rising prices following weaker pound

Real effective exchange rate vs consumer price inflation % change y-o-y



Sources: Macrobond, BOE, UK ONS

Brexit timeline increasingly clear but not many additional knowns

The UK government invoked Article 50 of the Treaty on European Union on March 29th, officially beginning its two-year withdrawal process from the EU. PM Theresa May has been consistent in her proclamation that "Brexit means Brexit" and indicated the likelihood of a 'hard' exit, one in which the UK leaves the EU Single Market. Most recently, on April 18th, PM May called for early general elections to be held on June 8th. While snap elections are generally associated with high political uncertainty – and add another milestone to a crowded electoral calendar in Europe this year – this move appears to have contributed to the more stable Brexit outlook.

The calling of a snap election came as a complete surprise from a PM who repeatedly announced that, in the name of stability, no early elections would be called. Thanks to a still-weak Labour opposition and favourable polls, the election should help PM May shore up a larger majority and a stronger popular mandate for the commencement of negotiations with the EU in June. Furthermore, it also buys more time in the extremely tight Brexit timeline. In 2019, the UK will officially exit the EU and will need to agree on some sort of transition arrangement. With the general elections now postponed to 2022 from 2019, it offers more time for this to proceed smoothly as well.

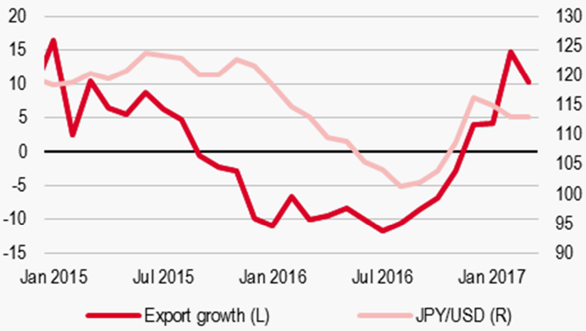
Financial markets largely reacted positively to this news. After depreciating 13% relative to the USD since June 23rd, 2016, the pound sterling has regained about 4% in 2017. It is, of course, not without its risks. Wage growth remains meagre and is not enough to compensate for the weaker pound, already hurting household purchasing power. Sharp public divisions regarding how the Brexit will look, alongside some negative economic effects coming into being and high uncertainty make forecasting the likely voting behaviour very difficult.

Japanese growth exceeds projections but weakness persists

Japanese growth picked up to 1.0% in 2016, in part driven by an upward revision of historical growth rates and strong net exports. Exports are expected to continue growing strongly in 2017, fuelling an acceleration in GDP growth to 1.4%.

2.8 Yen eases, driving export growth

% change y-o-y in volume of exports vs. JPY/USD exchange rate



Source: Macrobond

The yen has depreciated some 6% relative to the USD since the election of Donald Trump, in part due to anticipation of higher interest rates in the US. The Bank of Japan (BoJ) has a -0.1% policy rate, essentially charging banks a 0.1% fee to hold a portion of their reserves. The BoJ will likely maintain this through 2017 due to deep economic weakness. While the weak yen has stimulated growth, structural impediments like demographics are likely to keep growth low. Furthermore, the yen has stabilised and it appears that further monetary policy divergence is priced in by the market so stimulus from the exchange rate may be short-lived.

3. Emerging economies – prospects and risks

Table 3.1 Real GDP growth (%) – Emerging markets

	2016	2017f	2018f
Asia-Pacific (excl. Japan)	5.7	5.7	5.6
Eastern Europe	1.7	2.5	2.7
Latin America	-0.6	1.6	2.6
MENA	3.8	2.3	3.2
Sub-Saharan Africa	1.4	2.6	3.5

Sources: Consensus Forecasts (May 2017), IMF WEO

More hope than fear

For the first time in six years economic growth in emerging and developing economies is set to strengthen. Real GDP is expected to grow by 4.5% in 2017 and 4.8% in 2018, from 4.1% in 2016. Growth will benefit from firming activity in advanced economies, rising commodity prices, still benign external financing conditions – despite the ongoing normalisation of US monetary policy – and improved policies in some of the major emerging markets. This is helping Brazil and Russia, the third- and fourth-largest emerging economies, to come out of their lengthy recessions.

Emerging Asia remains the region with the strongest growth performance. Compared to the previous Economic Outlook, growth forecasts have been revised upward on the back of expansionary policies in China to manage its economic slowdown and prevent a hard landing. On the other hand, growth forecasts for the other regions have been revised down. The recoveries in Africa, Eastern Europe and Latin America are weaker than previously expected, while growth in the Middle East will slow down before a recovery will take hold in the course of the outlook period.

The economic outlook for many emerging markets remains challenging as risks remain tilted to the downside. Key threats to the EME outlook are rising protectionism, particularly by the Trump administration, a faster pace of US monetary policy normalisation, a sharper slowdown of the Chinese economy than assumed in the central scenario and rising political risks.

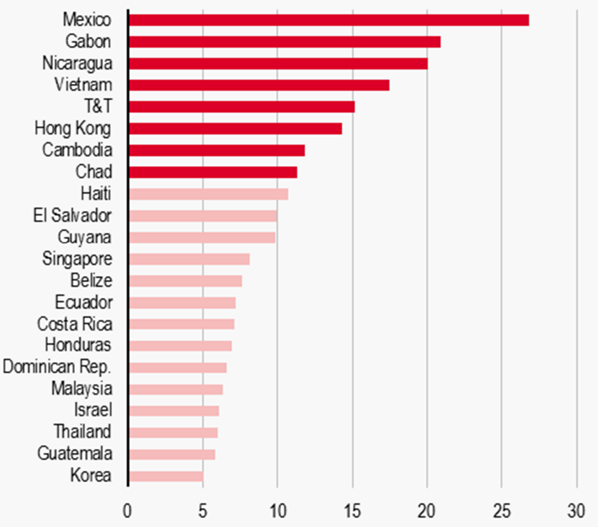
Positively, emerging markets are generally well able to withstand downside risks as they have reduced their external vulnerabilities, have built buffers in the good times, and have made their exchange rates more flexible. Thus far, markets have taken a relatively benign view: capital flows to all emerging market regions have been buoyant and emerging market currencies generally appreciated since the start of the year. Enhancing trade integration and strengthening institutional quality also help to improve shock resistance and earnings capacity (see boxes through this chapter highlighting encouraging developments here).

External developments threaten recoveries

Protectionist risks have eased for now

It appears that US trade policy will be more pragmatic than protectionist over the outlook period. However, potential restrictions previously championed by the Trump administration like import barriers, restrictions on outbound direct investments or immigration rules are still downside risks. There are many emerging market economies with high trade and investment ties to the US which makes them vulnerable to such developments.

3.1 Vulnerability for changing US trade policy
Exports to the US, % GDP



Source: IMF DOTS

As mentioned in Chapter 1, there are three channels through which America's trade partners could be affected: trade, remittances and foreign direct investments (FDI). To start with trade, under the agreements of the World Trade Organisation (WTO), countries cannot discriminate easily between their trading partners. However, there are possibilities to circumvent this rule and if the US would implement measures like import tariffs, the most probable is that countries with large trade surpluses with the US will be hit the hardest. In Figure 3.1, a list of EMEs most dependent on the US in terms of exports as a share of GDP is presented. Countries across Latin America, Asia, and Africa direct a large share of their exports to the US. Highlighted are the most vulnerable countries, those that are also at risk for targeted tariffs due to their trade surplus with the US. These include Mexico, Vietnam, and Cambodia. Gabon and Trinidad and Tobago are further vulnerable as energy exporters since the US is becoming more and more self-sufficient in energy – regardless of Trump policy, these countries need to find other markets.

Anti-immigration rules, which could reduce remittances from the US could have negative effects on countries in Latin America in particular. The impact on Asian countries would be limited but there are some smaller markets who do benefit from remittances. Vietnam and the Philippines belong to the group of countries for which these are more than 3% of GDP. But these countries also have relatively low external financing requirements, reducing their vulnerability to any big trouble.

The same can be said about the third channel, the risk of declining direct investments from the US, because of Trump's 'America First' policy. Within Asia, countries are not highly dependent on American FDI that a decline would lead to financing troubles. Latin America is also the most vulnerable region here, as half of Mexico's current account deficit is financed by US FDI. Trinidad & Tobago is the most vulnerable country as US investments cover the entire current account deficit.

Fed tightening is the greater concern

With US trade policy appearing more moderate and international trade prospects improving, it is financing conditions that is the greater concern for EMEs. Monetary tightening in the US and the prospect of tapering by the ECB, possibly from early next year, could negatively affect capital flows to EMEs as well as borrowing costs and exchange rates. Up to now since the Fed tuned to tightening mode, it has communicated its policy changes in a very transparent and timely fashion, helping financial markets to react smoothly. We expect that this will continue and that the risk of faster-than-expected tightening is lower now that a large-scale fiscal stimulus is not likely to significantly boost growth, but it remains a major downside risk. The ECB, in the meantime, still conducts very loose monetary policy, but the first signs that the quantitative easing program will end are there.

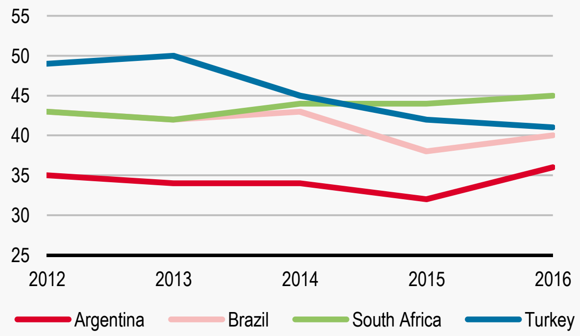
With or without faster tightening by the Fed or the ECB, capital flows to and from EMEs will be affected. The impact on economic growth will be moderate for countries which can use their flexible exchange rates as shock absorbers. For countries, however, with large current account deficits financed on the international capital markets, like Mongolia and Sri Lanka, rising interest rates can be a problem. Especially if foreign debt is denominated in USD, external financing can be more difficult. In India and to a lesser extent Indonesia, private companies have borrowed in US dollars, without hedging the currency risk. Hong Kong with its currency peg to the US dollar, will feel the need to raise official interest rates as well, which will affect mortgage lending. Together with China restricting capital outflows, tighter credit conditions will have an adverse effect on property investment and private consumption, though a financial crisis is not in the cards yet. Overall, we think monetary tightening and rising bond yields are a headwind for EMEs, but will not lead to large capital outflows and financing problems. Still, also here the risks are on the downside for individual countries, if the Fed tightens more quickly than expected.

Box 3.1 Developments in institutional quality

Strengthening institutional quality is an important way to enhance the growth impulse from external conditions and reduce the vulnerability to less supportive external conditions, highlighted in the IMF's latest World Economic Outlook. There are diverging developments here in key EMEs as Argentina and Brazil are strengthening their institutions, while South Africa and Turkey are going the other way. One indicator to look at for assessing the quality of institutions is the Corruption Perception Index from Transparency International, which measures perceived corruption in the public sector. From all indicators available on institutional quality, this is the most recent, including 2016 developments.

3.5 Institutional quality changes since 2012

Corruption perceptions index, 0 (highly corrupt) - 100 (very clean)



Source: Transparency International

Changes for the better...

Corruption is perceived to have declined in Argentina and Brazil since 2015. In **Argentina**, political change became imminent in 2015 as former president Cristina Kirchner could not be re-elected in the presidential elections of 2015. She was succeeded by Mauricio Macri, who since coming into office in December 2015, has made progress in fixing macroeconomic imbalances, improving policy credibility and strengthening institutions such as the central bank and the statistics agency. Rating agency S&P rewarded this recently with an upgrade of its long-term sovereign rating from B- to B. In **Brazil**, the improvement in the scores since 2015 goes hand-in-hand with the "Lava Jato" investigations into corruption centered on Petrobras which started in 2014, and also involves Latin America's largest construction group Odebrecht. These investigations are adding to political instability and have badly hit the Brazilian economy. But they set the stage for larger shock resilience and a strengthening of economic growth in the longer term. So will the strengthening of the fiscal framework under the new president Michel Temer, who succeeded former president Rousseff in August 2016, after her impeachment.

... and for the worse

Meanwhile in **Turkey**, perceived corruption has been rising since 2014, when president Erdogan stepped up political interference in the judiciary power. Since the failed coup in July 2016, institutional quality has been undermined further and concerns about the independence of the central bank have risen. All rating agencies cited concerns about the erosion of institutional strength as important reasons for the downgrade of Turkey's sovereign ratings to sub-investment grade, respectively for the negative outlook on these ratings by Moody's and S&P since this year.

Finally, also in **South Africa** public disenchantment over corruption is growing, although this is not yet reflected in Transparency International's corruption perception index as developments are very recent. President Zuma faces the possible reinstatement of corruption charges against him that were controversially dropped in 2009. Far more important are rising concerns about institutional quality following president Zuma's recent cabinet reshuffle, including the firing of respected finance minister Pravin Gordhan and his deputy. In response, rating agencies S&P and Fitch have downgraded their sovereign ratings for South Africa to sub investment grade, while Moody's has put its Baa2 sovereign rating on negative watch.

To conclude, changes in institutional quality foster shock resistance and medium-term growth outcomes, for instance via capital flows. International investors typically favour emerging markets with strong institutions. So it is no coincidence that the forecasts of Brazil and Argentina show an improvement in economic growth, while the outlooks for Turkey and South Africa have become more subdued.

Emerging Asia: defying headwinds from outside

With expected GDP growth rates of 5.7% in 2017 and 5.6% in 2018, emerging Asia remains the fastest growing regional economy in the world. China's economy is continuing to slow down, but – despite important vulnerabilities – can avoid a hard landing. India and Indonesia show high and accelerating growth figures. Whereas the three biggest economies walk a more or less autonomous growth path, several other emerging and developing economies in Asia are sensitive to external developments. Headwinds, particularly from the US, could slow growth but, in our baseline scenario, the impact of these external developments is not very strong.

Table 3.2 Real GDP growth (%) – emerging Asia

	2016	2017f	2018f
China	6.7	6.6	6.2
Hong Kong	1.9	2.2	2.1
India	7.0	7.3	7.6
Indonesia	5.0	5.2	5.3
Singapore	2.0	2.4	2.2
Taiwan	1.5	2.1	2.0

Source: Consensus Forecasts (May 2017)

Balancing act for Chinese authorities

Whereas Asia's growth performance may not suffer too much from Trump's trade policy and monetary tightening, a risk from inside can change the picture more heavily. This risk is the Chinese economy which is showing weakening growth and rising imbalances. The growth slowdown started about five years ago and is related to the economy's transition, in which the authorities aim to shift growth from exports and investments to private consumption. The government is trying to let growth slow gradually, to prevent a hard landing – accompanied by a sharp rise in unemployment and social unrest. Also, there is political pressure to smooth the growth slowdown in the run-up to the 19th National Congress of the Communist Party in the fall of this year.

At the moment, the government seems to be successful. Since the start of the year macroeconomic data improved, leading to (mild) upward revisions of growth projections by the IMF and the OECD. Reassuring was that not only retail sales and industrial production showed stronger figures, but that the forward-looking purchasing managers' indices were also up. Also the real estate sector performed well in the first months of the year, as authorities' efforts to cool the sector have yet to fully kick in. Real GDP was up a better than expected 6.9% year-on-year in Q1, largely driven by high levels of government investment in infrastructure and a recovery in exports. Looking to sectors, the pick-up in growth was driven by manufacturing and construction, as well as services though growth there eased slightly. These sectors are supported by stronger-than-expected policy support. Next to expansive fiscal policy, strong credit growth stimulates business investment and investment in the housing market. Loose monetary policy enables SOEs and lower governments to attract cheap money.

The stronger data, together with better prospects for the world economy, make a hard landing of the Chinese economy now less likely than it was half a year ago. The relatively good performance of the industry this year and high investments growth however do not imply an end of the shift to a more consumer-led and less export-driven economy. Therefore, we still expect the growth slowdown to continue and the authorities have to play a risky, but doable, balancing act of avoiding a hard landing and in the meantime driving back the imbalances in the economy. The imbalances mainly relate to state-owned enterprises (SOEs), lower governments and their financing vehicles, and the real estate and financial sectors. A closer look at these imbalances shows that the main risk is their interrelatedness.

State-owned enterprises. SOEs still account for 16% of the growth and almost half of all bank loans despite privatisations. Many SOEs work inefficiently, have weak management and depending on state aid. Large-scale restructuring is necessary, even though it will cost millions of jobs. An important vulnerability of many SOEs is their high debt. Lending has been excessive since the financial crisis, financing the strong increase in investments since then, but not always being efficient. According to the IMF, debt of non-financial companies has risen to 170% of GDP as of 2016. The Chinese authorities aim to reduce debt levels by imposing budget constraints and starting to restructure the debt. Many companies will close their doors, reducing overcapacity in the mining, steel and other heavy industries. The process of restructuring SOEs and their debt is currently slow. The problem of excessive debt, overcapacity and low productivity will continue to play for the time being, especially in the northern part of the country.

Lower governments. Lower governments play an important role in financing SOEs. Central government debt is only 19% of GDP, but so-called augmented debt, which also includes lower governments and their financing vehicles (LGFVs), increased last year to over 60% of GDP, from 47% four years earlier and the IMF expects it to rise 74% in 2021. The first LGFVs were established in the 1990s, but after the financial crisis they were used to meet growth targets through investments in infrastructure. Especially since 2014/2015, LGFVs have been increasing loan issuance significantly. Infrastructure projects are often set up by public-private partnerships, with the private party being an SOE. Real private companies find the return on investment too low, but

SOEs, because of their easier financing options, accept these lower returns. The interdependence of lower governments, state enterprises and non-profitable investments in infrastructure therefore is high.

Real estate sector. A weakness among the lower governments is that they depend on developments in the real estate sector. Approximately 37% of lower government revenue comes from the sale of land and property taxes. After strong price increases in recent years, real estate prices are a bubble in the largest cities. This means a risk to the financial position of lower governments and, in fact, for the entire economy.

Financial sector. The large size of outstanding credit, but in particular the poor quality of many loans and the liquidation of state-owned enterprises, poses risks to the financial sector, which is dominated by state banks. The NPLs share was officially 1.7% at the end of 2016, but according to the IMF, more than 15% of all commercial loans to companies were at risk of default. Lack of transparency is a big problem, because it can impair trust between borrowers and providers. Stronger lending by banks led to a renewed increase in demand for shadow banking products. These grew 20% year-on-year in the first half of last year, increasing overall volume to more than 80% of GDP. Particularly smaller banks are vulnerable, due to aggressive issuance of wealth management products (WMPs), which has created a bubble that can collapse, hurting investors' confidence and leading to a credit crunch.

The government has taken several measures to moderate credit growth and bring down debt levels at the various places in the economy. Besides the aforementioned restructuring of SOEs, the authorities tightened regulation for house buyers and real estate developers. Also, they raised the minimum tariffs for mortgage loans and imposed a maximum duration. The measures, together with the economy's transition will bring down economic growth, especially next year. The official GDP growth target of 'around 6.5%' for this year is feasible, but the consensus forecast of 6.2% for 2018 in our view is on the optimistic side. Fiscal policy is to remain supportive for growth, but the firming up of monetary conditions by the central bank (also responding to higher US interest rates), the tightening of housing purchases and slowing exports growth suggests the risks are on the downside.

The authorities also took action to stem capital outflows, which started in 2014 but accelerated last year. Related to this, the Chinese currency fell and reached the lowest level in eight years. Extensive interventions did not curb the weakening, whereas reserves fell rapidly. The size of the reserves still is enormous, also in historical terms, but the rate at which reserves went down, were reason for the authorities to tighten controls on transactions under the capital account, and in some cases the current account, in November 2016. The restrictions have helped to stabilise the renminbi's exchange rate and foreign exchange reserves could rise. Capital flows even reversed in February, though this may not be a structural reversal. Probably the renminbi will depreciate slightly further and more volatility can occur during the coming period, but the risk that the authorities choose for a one-off devaluation or a float of the currency has diminished. For the time being, authorities have chosen to keep capital flows in check, in order to be able to conduct independent monetary policy and control the exchange rate (you cannot simultaneously have free capital flows, an independent monetary policy and control your exchange rate, the so called "trilemma" or "impossible trinity".

India's economy helped by good policies

As in China, it is crucial to conduct sound economic policies in other emerging economies as well. Some countries perform better than others. India and Indonesia, the two biggest economies after China, obviously are on the good side. Since 2014, prime minister Narendra Modi and his centre-right Bharatiya Janata Party (BJP) have brought forward ambitious policies to improve the country's economic structure. The authorities already have taken major steps by improving the fiscal and monetary frameworks. Last year it was successful in passing a goods and services tax bill through parliament, which will bring Goods and Sales Tax unification across the country. The government's efforts to transform the subsidy regime by linking payments directly with people's bank accounts through a unique identification platform will result in fewer leaks associated with subsidy payments and reducing the incidence of corruption. Positive in retrospect are also the leadership and institutional changes at the Reserve Bank of India, which has ensured the independence of the monetary authorities. The same is applicable for the controversial demonetisation scheme, which will reduce corruption and only had a small and temporary negative effect on economic growth. Also, much-needed infrastructure spending has increased. Several initiatives launched by Modi may not reach the ambitious targets, like reforms to land and labour markets, and also the overhang of bad debt, that is weighing on domestic investment, still has to be addressed by the authorities. Still, on balance government policy will support economic growth in the coming years. Next to government spending, private consumption and exports are expected to perform well. Whereas India will not feel much impact from China's slowdown and possible trade measures in the US (India has a relatively closed economy), real GDP growth can reach levels of 7.3% this year and 7.6% next year.

Box 3.2 China's increasing role in global trade

The growth slowdown of the Chinese economy obviously has a negative effect on the region's economic performance. Recent research by the IMF shows that a one percent decline in China's growth implies a 0.3 percentage point reduction in growth for Indonesia, Malaysia, and Thailand and about 0.2 for Cambodia, Laos and Vietnam. Besides this, the IMF also expects that an economic downturn in China also may have a negative impact on asset prices and monetary conditions across the region. In an adverse scenario of a hard landing of the Chinese economy accompanied with a financial crisis, the ASEAN countries definitely will feel the impact. On the other side or this risk, China still plays a positive role for the region by stimulating trade, infrastructure investments and, therefore, economic growth. Against the context of the protectionist tendencies of US trade policy, China's initiatives on the trade and investment front are more welcome than before.

A few days before Trump's inauguration, China's president Xi Jinping delivered a strong defence of globalisation at the World Economic Forum in Davos and indicated that China will support free trade and open markets. One ambition for this is China's One-Belt-One-Road initiative (OBOR), reminiscent of the ancient Silk Road, which connected China to Central Asia and Europe. OBOR is China's modern instrument to boost regional integration by policy coordination, economic cooperation and financial collaboration, with the aim of enhancing connectivity. China not only stimulates the creation of a physical network of railways, roads, pipelines, and utility grids that links China with Europe, East Africa and other parts of Asia, but also a platform for cooperation.

The Silk Road Economic Belt and 21st Century Maritime Silk Road

Sources: Xinhua Finance Agency, The Economist

China is also a counterweight to possible protectionist tendencies in advanced markets, participating in the Regional Comprehensive Economic Partnership (RCEP). After the Trump administration decided to withdraw from the unratified TPP deal, Japan and the ASEAN countries vowed to speed up talks on RCEP, a pact launched in 2012 with the aim of deeper economic cooperation among the ASEAN countries, China, Japan, South Korea, Australia and New Zealand. The RCEP is viewed as an alternative to the TPP, which excludes China and India, and includes several nations from the Americas. RCEP sets lower standards for free trade and other cooperation, but a recent initiative by Japan to revive TPP without the US creates pressure for higher standards in the RCEP deal.

Though it is unclear yet how the different initiatives will develop, it is clear that China plays a stimulating role for regional and worldwide trade. Should Chinese authorities be successful in tackling its imbalances, lower but more sustainable growth should have a positive global impact.

More arduous reforms implementation in Indonesia

Indonesia is another example of an emerging economy in Asia with government policy helping the growth performance. GDP growth is expected to accelerate to 5.2% this year and 5.3% in 2018, from 5.0% last year, with government and business investments as the main drivers. President Joko Widodo, who took office in 2014, strives to strengthen the economy through improved infrastructure and increased foreign investments, which he sees as vital to addressing Indonesia's deficiencies. Meanwhile the government has the intention to develop the manufacturing base, diminish dependence on the resources sector and reform the low productive agricultural sector. Also, the government wants to broaden the tax base to strengthen government income and combat corruption and bureaucracy.

The reform-oriented government policies are implemented a bit more arduous than in India. The government simplified procedures for foreign investors and made it possible for them to be active in more sectors than before. But some large-scale foreign investments are hostage to bureaucracy and there still is protectionism in other areas, like the mining sector, which led to complaints by the US. On the other side, Indonesia is an active member of ASEAN and involved in the China-led RCEP. Recent meetings between Widodo and Australian prime minister Malcolm Turnbull have brought the two countries close to finish a free trade deal. This Indonesia-Australia Comprehensive Trade Agreement envisages the relaxation of export restrictions and is designed to strengthen businesses and generate jobs.

Latin America: weak recovery

The region is emerging from a two year recession but the projected recovery is weaker-than-previously-expected at 1.6% in 2017 and 2.6% in 2018. A return of orthodox policies in Argentina and Brazil is driving the recovery. But substantial uncertainty across much of the region, relatively limited commodity price gains so far this year and country-specific circumstances have slowed the recovery. Whereas most countries in the region have room for easier monetary policies, this is not the case for Argentina and Mexico. Rising US trade protectionism is the region's major challenge, with Mexico being most exposed. But the region is pro-actively dealing with these challenges. Also, Mexico is well placed to deal with the coming period of uncertainty, while supply chain integration with the US and close integration with major global economies serve as a buffer. The region is also well able to deal with the impact of rising US interest rates given generally moderate ratios of foreign currency debt, sound policies, flexible exchange rates and generally healthy buffers of international reserves. The main exception is Argentina, given its high refinancing needs and relatively low buffers. Needless to say that default risks in Venezuela remain very high.

Table 3.3 Real GDP growth (%) - Latin America

	2016	2017f	2018f
Argentina	-2.3	2.7	3.0
Brazil	-3.6	0.6	2.5
Chile	1.6	1.6	2.7
Colombia	2.0	2.2	2.9
Mexico	2.3	1.8	2.2
Peru	3.9	3.0	3.8
Venezuela	-18.6	-5.0	-0.4

Source: Consensus Forecasts (May 2017)

Argentina: emerged from recession, but remains fragile

Argentina is slowly emerging from last year's deep recession, triggered by weak agricultural prices and the Macri government's return to more orthodox policymaking. The economy returned to growth in the second half of last year and high frequency indicators show further improvement with the economy profiting from a recovery in agricultural prices and a good harvest. But the economic situation remains fragile. Inflation is falling but at 34% in March it remains high and significantly above the target band of 12%-17% for this year. The central bank has responded by raising interest rates. This confirms improving quality of institutions (see Box 3.1), but combined with still needed fiscal consolidation will constrain economic growth going forward. Social tensions have built up ahead of mid-term elections in October 2017 amid high inflation and unemployment levels as reflected by a general strike last April. The government's popularity rating though remains around 50%, which is remarkably high. Supporting this popularity, in early April, tens of thousands of people took the streets to make clear that they do not want to go back to the policies under former presidents Cristina and Néstor Kirchner who ruled the country between 2003 and 2015. Export growth is robust and the government has pre-financed 70% of this year's external financing needs. This will mitigate the vulnerability to a normalisation of US monetary policy, to which Argentina is highly exposed.

Brazil: economy slowly recovering, politically challenging

President Michel Temer has made further progress with his reform agenda following congressional approval in December 2016 of a constitutional amendment to freeze public spending – a vital part of the government's fiscal adjustment efforts. This needs to be complemented with labour and social security reforms which are currently being discussed in Congress. In response, sentiment has further improved and the real has strengthened despite massive monetary easing. The latter also reflected rapid disinflation: since peaking at 10.7% in January 2016 inflation has fallen to 4.6%, well within the target band of 3%-6%, allowing the central bank to cut rates.

These developments are setting the stage for a gradual recovery in economic activity from a deep and long economic contraction. Although the emergence from recession is taking longer than anticipated earlier, signs are growing that the economy has bottomed: manufacturing production is rising since last March. The recovery is however contingent on further progress with the reform agenda. The risk of "dilution" of these reforms has recently grown following the Supreme Court order that one-third of the cabinet and many Congress members be investigated for corruption relating to the ongoing "Lava Jato" scandal. Although this weighs negatively on governability, the central scenario remains that the government will succeed in passing the pension bill albeit in a somewhat watered down manner.

Brazil's vulnerability to the threat of US protectionism is low, given its relatively low share of exports to the US, its negative trade balance with the US and a moderate share of FDI from the US (<20% of the total). Brazil's corporate sector is vulnerable for the normalisation of US monetary policy as 40% of its debt is financed in foreign currency. But declining interest rates on domestic debt will mitigate the impact on debt service, while hedges mitigate the vulnerability to exchange rate risk. Brazil's shock resistance thus remains strong and is underpinned by a flexible exchange rate, a solid external sector, large official reserves and a sound banking system.

Box 3.3 Trade initiatives in Latin America

To address the growing danger of global protectionism following the withdrawal of the US from the Trans-Pacific Partnership and the announced renegotiation of the North-American Free-Trade Agreement (NAFTA), Latin American countries have taken various initiatives to strengthen regional integration, increase inter-bloc co-operation and co-operation with Asia (including China) and move forward with Free Trade Agreements with the EU. For instance, the Pacific Alliance countries (Chile, Colombia, Mexico and Peru) have made developing ties with Asia a central goal and are actively seeking ways to conclude trade agreements with the 11 remaining TPP countries, as well as with other Asian markets, including China, South Korea and India. Talks between these countries could result in an alternative Trans-Pacific trade bloc. Colombia is set to benefit most of this, as it was not a signatory of the TPP and does not have a FTA with China. Beyond the TPP, the Pacific Alliance countries have also turned towards further regional integration, including with Mercosur, a trade bloc formed by Argentina, Brazil, Paraguay and Uruguay. This bloc is being revived under the new leadership in Brazil and particularly in Argentina. President Macri of Argentina has been a key player in getting talks on a Mercosur-EU Free Trade Agreement (FTA), which have been on and off since 1999, back on track. He is eager to reach a deal before the 11th World Trade Organisation ministerial conference in December, to be held in Buenos Aires. The EU is Mercosur's largest trade partner and source of foreign investment. But many obstacles to a successful FTA remain, with one of the largest being the treatment of agricultural products. Meanwhile, Mexico has accelerated talks with the EU to update its FTA.

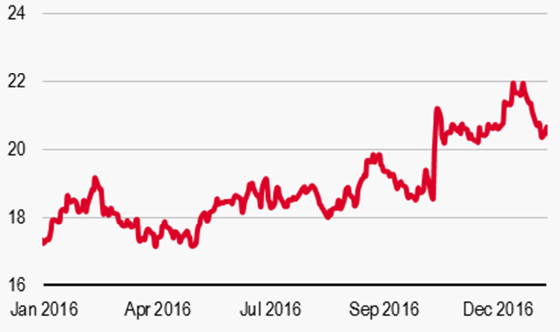
Mexico: sluggish economy, strong resilience

Mexico's economy is most exposed to developments in the US, with more than 80% of its exports going to the US and around half of its remittances and foreign direct investments stemming from the US. However, as the supply chains between Mexico and the US are highly integrated and both countries add significant value to each other's imports, any disruption in bilateral trade would also impact US companies. This means that US companies are likely to pressure the US administration not to make any decision that would jeopardize their cost advantage. This has increased the chances that pragmatism will prevail with regard to the renegotiation of NAFTA most likely meaning higher openness of the services industry (very closed in the case of Mexico). This could also be beneficial to the Mexican economy as it would increase productivity of the services sector in the longer term. So would export market diversification. In response to President Trump's decision to renegotiate NAFTA and tighten immigration policies, Mexico is focusing on strengthening ties with the Pacific Alliance, Mercosur and the EU. Mexico also has 12 free-trade agreements with 46 countries in place, which should help to shift exports to other markets.

Declining concerns about the consequences of a Trump presidency for Mexico are reflected in rising business and consumer confidence since the start of the year and peso appreciation. The peso is even the world's strongest-performing currency so far this year and has almost recovered from the sell-off following the election of Donald Trump, although it remains volatile. Peso appreciation also reflects the hands-on approach of the Mexican authorities: interest rates were hiked, interventions in the foreign exchange market were raised and hedges were offered. Authorities have also pre-emptively covered external borrowing needs and private firms are substituting foreign currency debt with local currency debt to reduce exposure to currency fluctuations. Nonetheless, while this confirms that the country is in a good position to withstand external shocks, tighter monetary conditions and a lack of fiscal room are weighing on economic activity. Mexico's economy had been performing sluggishly well before the November 2016 US presidential election. GDP grew only 2.3% in 2016, mainly due to decreased oil prices, lower oil production, tighter fiscal policies and low productivity growth. Growth is projected to slow further to 1.8% in 2017 and remain weak at 2.2% in 2018. Inflation has risen to over 5%, its highest level since 2009 on the back of earlier peso depreciation and the phased introduction of market fuel prices this year. That said, inflation is expected to peak by mid-2017 and to move back in the central bank target range of 2%-4% in the course of 2018. External imbalances are moderate, official reserves are sizable and underpinned by an IMF Flexible Credit Line, and the country's medium to long-term prospects are still strong thanks to improving fundamentals and robust policymaking.

3.3 Peso recovers since US election

Mexican peso per USD



Source: Macrobond

Other Pacific Alliance: dealing with short term challenges

Growth forecasts for the other three Pacific Alliance countries **Chile**, **Colombia** and **Peru** have been revised down as well. Brazil's "Lavo Jato" scandal has resulted in a downturn in construction activity in both Colombia and Peru. Furthermore, in Colombia, implementation of the peace accord with the leftist FARC guerrillas remains slow, business and consumer confidence remains weak while another guerrilla group, ELN, is disrupting the oil industry as a strategy to improve its bargaining power in peace talks with the government. As a result, manufacturing, retail sales and the oil industry are underperforming. Chile experienced a weak start of the year due to a seven-week strike in the world's biggest copper mine and rising unemployment (>6%). All three countries remain however well placed to deal with these challenges. With inflation declining in Colombia and well contained in Chile, the central bank is in an easing cycle which will be supportive of growth going forward. In Colombia, this will be accompanied by a speeding up of public investments in infrastructure. In Peru, the government has room to stimulate the economy with a fiscal package and the central bank is considering cutting rates to support economic growth. Also here, sound policy frameworks, flexible exchange rates and healthy buffers, which for Colombia are underpinned by an IMF-FCL, are limiting their vulnerability to adverse spill-overs.

Central & Eastern Europe: tentative improvements

Economic growth is picking up in Eastern Europe, supported by higher domestic consumption growth with help from tight labour markets, loose monetary policy and fiscal stimulus. In the Czech Republic, Hungary, Poland and Romania, GDP growth is supported by robust consumer spending as well as a recovery in investment inflows from the EU. Solid growth in the eurozone will boost opportunities for Eastern European exports.

Table 3.4 Real GDP growth (%) – Eastern Europe

	2016	2017f	2018f
Czech Republic	2.3	2.5	2.6
Hungary	2.0	3.3	3.2
Poland	2.7	3.4	3.2
Romania	4.8	3.9	3.3
Russia	-0.2	1.3	1.7
Turkey	2.9	3.1	3.2
Ukraine	2.3	2.3	2.9
CIS	0.3	1.7	2.1

Source: Consensus Forecasts (May 2017)

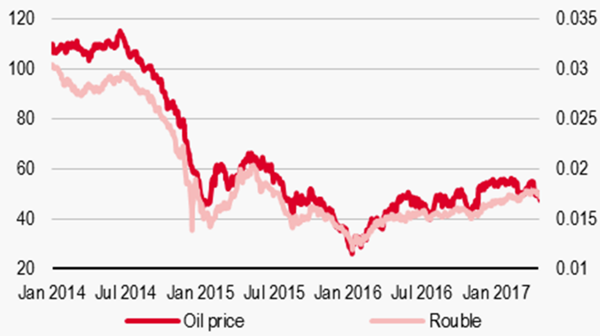
Turkey's outlook is stable but much weaker than its average performance as political uncertainty, security concerns and high external vulnerabilities cloud it. Growth in the CIS region, including Russia is forecast to accelerate to 1.7% in 2016, following only 0.3% in 2016. Higher growth is driven by a recovery in Russia, the region's largest economy, and higher commodity prices.

Russia: resumption of weak growth

GDP growth resumed in H2 of 2016, in line with our expectations in November. Quarterly figures were in the black again in Q4 with GDP rising 0.2%. Other data supported this, with industrial production increasing 2%, spurred by robust oil production (+4% against a year earlier). Business confidence went up to 53.2, the highest level since 2007. As another indicator of Russian optimism, the share price index was up 10% in early 2017. This trend is expected to support growth of 1.3% and 1.7% in 2017 and 2018 respectively.

To understand this development one should consider the close link of the Russian economy to the price of oil. The rouble has been floating since late 2014, when the pressure on the exchange rate from the oil price was so strong that managing the peg had cost USD 100 billion in FX reserves. Now, on the back of the higher oil price as well as the US election result the rouble has strengthened by 20% since March 2016.

3.4 Rouble highly correlated with oil price
USD per RUB vis-à-vis Brent oil, price per barrel



Source: Macrobond

The rouble appreciation in turn has had a positive impact on inflation, which went down to 5.4% in December and 4.3% in March this year. Inflation was also helped by a strong harvest and is now close to the central bank target. This provides a welcome boost to household consumption (full year inflation in 2016 was 7%), which already shows in Q1 data: 2.4% retail sales growth. In addition, it allows the central bank room to lower the policy rate. Indeed, the latter cut from 10% to 9.75% in March, and will be cut further during the year, likely to 8%. Such a change is welcome because fiscal policy will be able to provide much less support now than in 2016, when the budget deficit went up to 3.4%. Indeed, for 2017 fiscal tightening is expected to the tune of 1 percentage point of GDP to reach a 2.7% deficit this year, and 2.1% in 2018. Furthermore, the external sector contribution was under pressure due to – amongst others - the rouble appreciation. The current account ended at 1.7% of GDP in 2016, down from 5.2% a year earlier. But that will not last. Indeed, buoyed by a higher oil price and higher oil production, the current account is expected to widen to around 3%. This clearly supports GDP, which will be helped by a mild uptick in investment as well.

Meanwhile, benefitting from the higher oil price, two major policy reforms are being implemented. Firstly, interventions are being conducted in the currency market to stem the rise of the rouble. This steers the currency away from overshooting and thus hindering non-oil exports. Moreover, it contributes to increasing international reserves. Secondly, the government has confirmed its plans to balance the budget by 2020 using a fixed USD 40 per barrel oil price. Any extra revenue stemming from a higher oil price, will be used to further build the reserves as well (rather than using it for financing the deficit). The implication is that the drawdown for the Reserve Fund that we envisaged in our November outlook will be pushed back. It allows Russia to take pursue a more independent economic policy.

That may be needed, because a change in the stance towards sanctions by the US and EU has become less likely since the US administration decided to bomb Syrian government weaponry. It created a stand-off with the Russian government, the relation had already become more strenuous due to the inquiry into the Russian involvement in the US elections. Although the new US administration has so far not shied away from ad hoc and radical policy changes, the outlook for relief, let alone abolishment, of the international sanction is negative.

This will not help industry modernisation and FDI, badly needed to bring growth to a higher level than the currently envisaged 1.5%-2%. The other route towards more investment, a significant improvement of the business climate, is also not likely given the vested interests of the group around president Putin. Still, there is some hope that reforms will take off after his expected re-election in 2018. After all, Russia has been credited for implementing good economic policies, particularly on the monetary and fiscal side.

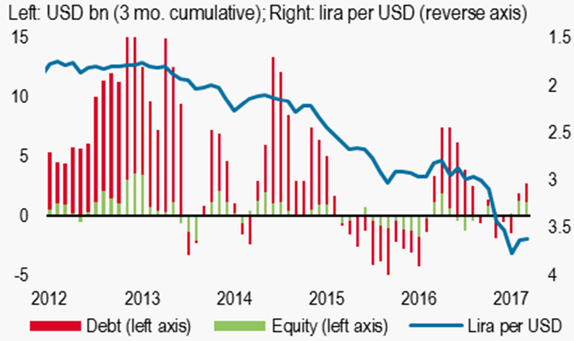
Turkey's outlook remains subdued after referendum

The economic damage of the failed coup attempt in July 2016 has been contained, with only a contraction of activity in Q3, but the growth outlook remains subdued. In order to stimulate faltering domestic demand the government has stepped up fiscal spending and took measures to support credit growth. Although this has led to some improvements in economic sentiment and activity, economic growth is expected to be only about half of what it used to be over the coming years (the consensus view is 3.1% for 2017 and 3.2% for 2018). Uncertainty persists in light of the controversial transition to a presidential system, with limited checks and balances, and the implications of this move for the future of Turkey-EU relations. The constitutional change was approved in the referendum of 16 April by a narrow margin with just 51.4% in favour. The opposition and international organizations (including the EU) question the result, and the state of emergency has been extended for another three months. The surges in inflation (to double digits at 11.9% in April) and the unemployment rate (to 11.8% in January) provide fertile ground for a more broad-based social discontent in the already divided country. Erdogan's recent references to the possibility of new referendums on the EU accession process and the reintroduction of the death penalty make it increasingly likely that relations with the EU will have to be reviewed.

Despite the clear credit risks, we maintain our base scenario of relative economic and financial stability during the outlook horizon. Once the dust around the referendum has settled, President Erdogan is set to continue his tight rule, at least until the presidential and parliamentary elections in late 2019. Shock absorbing capacity is still underpinned by sound government finances and a healthy banking system; noting that if tax breaks and credit support measures prove to be long-lasting, first cracks in those two pillars could appear. The initial financial market response to the referendum was mildly positive as the 'yes' vote was also regarded by investors to be the most stable outcome in the short-term. Yields on Turkish government bonds continued to ease back to more normal levels since it reached an all-time high in January. Retaining good access to international financial markets, will be key to financing large infrastructure projects that are part of president Erdogan's "Agenda 2023", when the Republic of Turkey celebrates its 100th anniversary. In case Erdogan decides to give a fresh impetus to structural economic reforms, which have been on the back burner, trust by financial markets could be further bolstered.

3.5 Portfolio inflows and lira exchange rate

Left: USD bn (3 mo. cumulative); Right: lira per USD (reverse axis)



Source: IIF

This doesn't change the fact that Turkey's external position is still highly vulnerable to changes in market sentiment. The large current account deficit is likely to persist, given that the gradual rise in oil prices will drive up import costs and the tourism sector will take time to recover with the terrorist attack during new year celebrations still fresh in mind. For financing the current account deficit Turkey relies heavily on volatile capital inflows. The sell-off of Turkish debt and equity-related assets after the failed coup attempt caused the Turkish lira to plunge by about 25%. This sharp depreciation has put pressure on the highly dollarised (and only partly hedged) corporate debt burden.

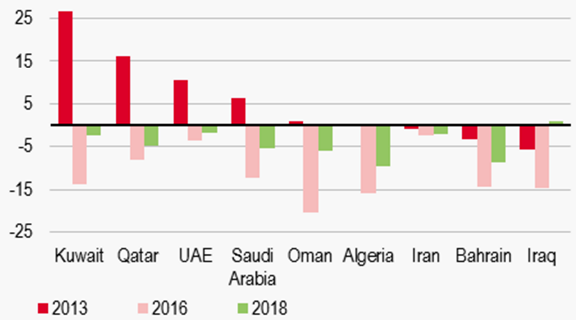
With its independence at stake, the central bank finally managed to stem the tide by half-baked tightening measures. While it left its key policy rate unchanged, it started to provide most of its market funding via its highest lending rate (the late liquidity window), which was increased in three steps from 10% at the beginning of the year to 12.25% in April. To counter rising interest rate expectations in the US and in light of inflation still well above target, the Turkish central bank may have to tighten its policy further. This would curb the domestically driven economic recovery, and may prove to be difficult facing pressure from the government. FDI inflows are likely to remain structurally low given the deterioration in institutional quality and rule of law, and the cooling of foreign diplomatic relations with the EU from which the largest chunk of FDI originates.

MENA: oil price recovery gives some breathing space

The gradual increase in oil prices is taking off some of the pressure on the external positions and fiscal balances of oil exporting countries. Current account balances are recovering from their lows in 2016. However, some of the original surplus countries (i.e. Bahrain and Oman) are still expected to be in deficit this year, while current account deficits of oil importers are likely to remain large. Although the propped up oil prices provide some relief on the budget revenue side, the fiscal room for most oil exporting countries is still much smaller than prior to the oil crisis (see figure 3.6). Moreover, fiscal breakeven prices of Bahrain, Saudi Arabia and Oman are still significantly above short-term oil price forecasts. So far, fiscal reform is set to continue, albeit the focus is gradually shifting from cuts in capital expenditure and fuel subsidies to non-oil revenue raising measures. For instance, a VAT of 5% is planned to be introduced in all the Gulf states in 2018. Containing the very sizeable public wage bills that limit room for public investment in infrastructure remains one of the most challenging tasks ahead. This is illustrated by Saudi Arabia's recent reversal of the bonus and allowance cutbacks of public employees.

3.6 Fiscal deficits to recover modestly by 2018

Government budget balance, % GDP



Source: EIU

Higher oil prices together with fiscal and structural reforms have helped to improve market sentiment towards the MENA region. This applies to Saudi Arabia in particular, after it cleared part of the arrears to building contractors, which will allow the largest oil producer in the MENA region to more frequently access the capital market to finance its deficits, instead of needing to tap its still high but dwindling petrodollar reserves. Saudi Arabia raised USD 9 billion in a USD-denominated Islamic bond sale in April 2017, six months after issuing the biggest ever bond by an emerging market country. The government's ease of obtaining external funding will help to improve the tight domestic liquidity situation in the private sector via less crowding out. Saudi Arabia's 3-month interbank rate has already come down substantially to about 1.73% in April from its seven-year peak of around 2.38% in October. This will also help to offset some of the upward impact on domestic interest rates coming from the normalization of US interest rates, which is being tracked by Saudi Arabia and most other MENA countries with a currency peg.

Real GDP growth of oil exporters will slow further in 2017, because of the agreed cuts in oil production, before picking up next year. The growth rates of Oman, Kuwait and also Saudi Arabia, which is bearing the brunt of the OPEC production cut, will even dip below 1% in 2017 according to EIU forecasts. On the other hand, Iran is expected to continue to outperform, being allowed to regain market share. The initial jump in Iran's growth rate to 4.6% y-o-y in 2016, will be followed by a further albeit more moderate growth acceleration with pre-sanction oil production levels in sight. While FDI in Iran is picking up, it is likely to remain below potential. Foreign banks are still weary of resuming financial transactions, given remaining US sanctions and the risk of new sanctions with President Trump in the White House. Economic growth in oil-importing countries is regaining traction amid growing investor confidence and economic reforms. But economic activity in these countries is still being troubled by lower tourism due to the weak security situation in some countries (e.g. in Tunisia, and Egypt) and spillover of regional conflicts including the economic costs of accommodating large numbers of refugees (e.g. Jordan and Lebanon).

Although ambitious, the roadmaps followed by for instance the UAE and Saudi Arabia (Vision 2030) to diversify their economies away from oil and create a more prominent role for the private sectors in the economy are long shots. Interesting short-term developments in this regard are the plans for privatization, including the selling of a minor stake (about 5%) in Saudi Arabia's state oil company Aramco (which could become the biggest IPO ever). Part of the proceeds will be reinvested in assets abroad to reduce future income reliance on oil revenue. Meanwhile, maintaining the currency pegs to the strong dollar could hamper competitiveness of non-oil sectors and thus hinder diversification efforts. Real effective exchange rates in Saudi Arabia and UAE have appreciated by about 17%-20% over the past four years. On the other hand, Egypt let its pound depreciate by about 50% after it moved to flexible exchange rates as part of the Extended Fund Facility programme approved by the IMF in November 2016. Combined with major fiscal and structural reforms this should help to restore macroeconomic stability relatively quickly.

Sub-Saharan Africa: a modest recovery expected

Economic growth should show a modest recovery this year in Sub-Saharan Africa. Supported by an increase in commodity prices economic growth is expected to rise to 2.6% from 1.4% in 2016. More importantly, growth in the two largest economies in this region is expected to increase this year. Both Nigeria and South Africa were challenged by different macro-economic conditions last year. Nigeria entered the first recession in years and economic growth in South Africa was constrained by drought, low commodity prices and power shortages. The increase in commodity prices will support economic growth in several countries in this region. Although the worst seems to be over there are still some risks on the horizon, such as Fed tightening. Ghana, for instance, has already seen a sharp increase in its debt-servicing costs. Many countries have also faced currency depreciations, increasing inflation and domestic interest rates and higher foreign debt payments.

The lower commodity prices in the past years have worsened fiscal balances and resulted in declining fiscal buffers. Although commodity prices have risen, the previously high levels will not be reached in the short term, making it difficult for many African countries to continue their ambitious investment programmes and support their economies. Therefore, a few of them will turn to the IMF for support.

South Africa: downgrades increase vulnerabilities

After credit downgrades to sub-investment grade by S&P and Fitch, vulnerabilities to external shocks have increased. These were prompted by the cabinet reshuffle by President Zuma, especially the ousting of the well-respected finance minister. This increased uncertainty, mainly regarding the continuation of fiscal consolidation and governance issues. Politicised policymaking is likely after Mr Zuma appointed allies in his cabinet. It is highly uncertain if he will finish his term in 2019 though since he is very unpopular and the cabinet reshuffle spurred sizeable public protests.

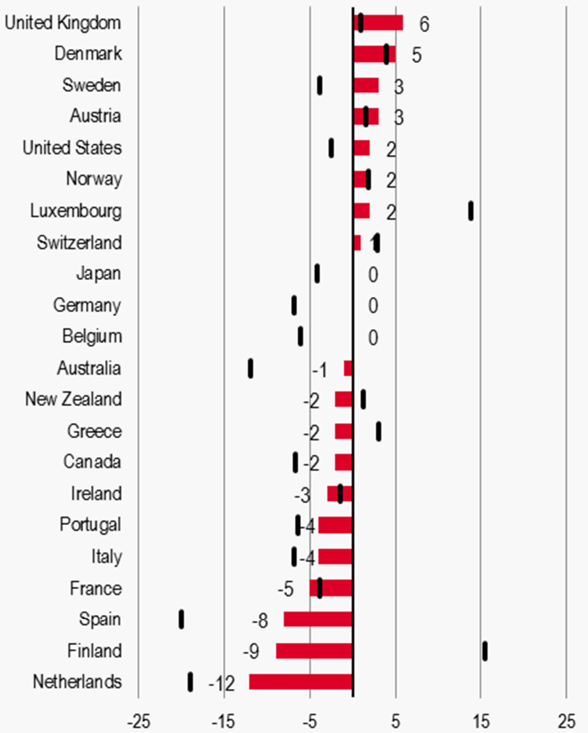
Despite the political uncertainty, economic growth in South Africa is forecast to recover to 1.0% this year from a meagre 0.3% in 2016. Higher commodity prices for its main export products, a recovery in agriculture and an improvement in electricity supply support economic growth this year. However, downside risks remain and are constraining economic growth. Domestic demand is weak due to high unemployment, high household debt and high inflation. Besides, global policy uncertainty is one of the main risks to the country. Due to its dependency on portfolio investments for financing its high current account deficit South Africa is very vulnerable to external shocks and changes in investment sentiment. This was clearly visible in April this year when South Africa lost its investment grade rating from S&P and Fitch, resulting in a sharp depreciation of the rand. For the government the downgrade of the foreign currency debt rating to junk status is mitigated by the low reliance on foreign currency debt, but not for state-owned enterprises, which are more exposed due their higher share of foreign currency debt. A downgrade of the domestic debt rating would have more impact on borrowing costs for the sovereign.

Nigeria: challenging times ahead

Nigeria posted its first recession since 1991, contracting 1.5% in 2016. The lower oil price, a decline in oil production and power, fuel and foreign exchange shortages were hitting the economy hard. Besides, due to the depreciation of the naira inflation increased to 16%, leading to high domestic interest rates. In 2017, a small economic recovery is expected to 1.2%. The high inflation rate (16.8%) will keep interest rates high and will constrain economic growth this year through lower domestic demand. A positive impact on the economy should come from an expected increase in oil production and good performance in the agriculture sector. Despite moving to a more flexible exchange rate regime last year, the central bank is still interfering in the exchange rate market and dollar shortages remain, complicating doing business in Nigeria. Despite all these challenges Nigeria is facing it was very successful in issuing government debt in the international capital market.

4. Implications for the insolvency environment

4.1 Insolvency outlook 2017
% change from 2016; % change 2016 in ▮



Source: Atradius

Insolvency environment in advanced economies stable

The insolvency outlook across the 22 advanced markets that Atradius tracks is stable for 2017. After a 5% aggregate decrease in 2016, corporate failures are expected to decline only 1% in 2017, the weakest performance since 2009. With the Atradius insolvency forecast model being predominantly dependent on business cycle movements, economic recoveries in most advanced economies imply that the insolvency forecast outlook should improve but slower-than-expected growth in most developed markets in 2016 should also have a lagged effect on insolvencies this year. Despite increasingly robust GDP growth, businesses are facing increasing uncertainty which further clouds the insolvency outlook, as it weighs on confidence, investment and consumer spending. There are several bright spots though, offering a balanced outlook, with another year of strong improvements forecast in the Netherlands and Spain and further notable decreases in Portugal, Italy and France.

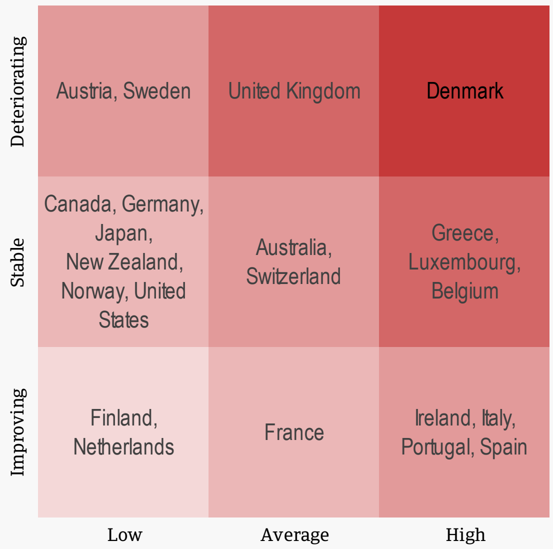
Insolvencies expected to decrease in most advanced markets

For most of the advanced markets, insolvency rates are expected to stabilise or improve this year, following the upward trend in western economies' economies. The strongest improvement is expected in the Netherlands, Finland and Spain. For the Netherlands it is the fourth year of improvement after a record high level of insolvencies in 2013 and is based on the expectation of robust economic growth over the coming period (2.0% this year). Last year, Finland was suffering from the recession in Russia and weak global demand. The country is recovering this year and we expect a 9% fall in insolvencies. In Spain, while the magnitude of decline in insolvencies is strong, the level of insolvencies remains very high. Also, with the Greek economy showing signs of recovery this year, while still suffering from continued debt sustainability issues and economic distress, we expect a first decrease, be it modest, in insolvencies after ten years of increases. Compared to November's Economic Outlook, the insolvency outlook for 2017 is adjusted positively for a number of countries, such as France, the Netherlands, and the eurozone periphery (Greece, Ireland, Italy, Portugal and Spain). This is due to the expectation that economic activity will be 0.4 percentage points higher than forecast in November.

A schematic overview of the insolvency situation in advanced markets is illustrated in the Insolvency Matrix below. For quite a few countries insolvency rates are expected to improve considerably, as can be seen in the lower row in the chart. In four countries insolvencies are expected to increase by more than 2% in 2017 and they are to be found in the top segment of the grid. The middle row of figure 4.2 consists of countries for which in our forecasts we expect to display stable insolvency developments (i.e. a change in insolvency of no more than 2%). The horizontal axis in the Insolvency Matrix depicts the absolute level of insolvencies – whether the frequency of insolvencies in a country is assessed as low, average or high – in a cross-country comparative context. As such, all countries perceived to be markets with comparatively high insolvency frequencies are to be found in the right-hand segment.

4.2 Insolvency matrix 2017

Horizontal axis indicates level; Vertical indicates change

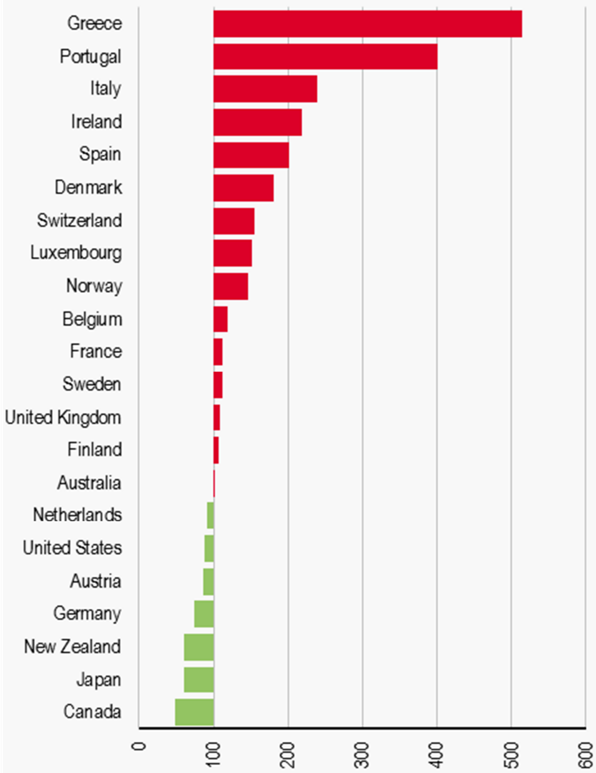


Source: Atradius

At the lower-right corner of the insolvency matrix, we see the countries in the southern and western periphery of the eurozone for which, insolvency rates are expected to improve, but remain far above pre-crisis levels. This raises the question whether countries are structurally recovering from their high insolvency levels from after the financial crisis.

4.3 Insolvency levels 2017 relative to pre-crisis

Percentage insolvency level relative to 2007, 2007=100

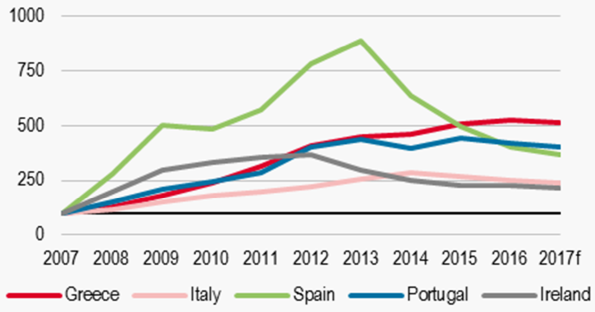


Source: Atradius

Figure 4.3 illustrates a comparison of insolvencies with pre-crisis levels. Here, we set the 2017 forecast levels of insolvencies for developed countries as a percentage of their 2007 levels. First of all, the figure is stretched by the very high relative levels of Greece and Portugal, followed by Italy, Ireland and Spain. The total number of annual corporate failures in the countries of the eurozone periphery remain twice as high than before the crisis – even exceeding four times as high in Portugal and five times in Greece. Figure 4.4 shows that, while we expect insolvencies to decrease, the insolvency levels are still at a structural higher level. For the Mediterranean countries, these figures are a reflection of persistently weak GDP growth in the past years and inefficient labour markets.

4.4 Insolvencies improving from high levels in eurozone periphery

Annual insolvency count, index 2007 = 100

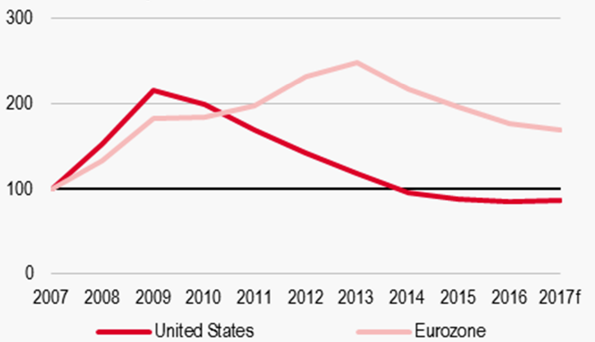


Source: Atradius

For the euro area as a whole the insolvency rate is still recovering from a 2013 peak around 2.5 times the pre-crisis level. With the eurozone export growth expected to accelerate this year and continue to grow in 2018, we expect this to heave a positive impact on the eurozone insolvency rate. On the other hand, the external environment remains subject to exceptionally high uncertainty, with possible negative economic effects of the Brexit vote, the rise of Eurosceptic parties in countries with elections this year, and possible isolationist and protectionist policies from the US Trump administration.

4.5 Eurozone insolvencies still recovering

Annual insolvency count, index 2007 = 100



Source: Atradius

According to the April 2017 bank lending survey (BLS) of the ECB, loan growth has been supported by eased lending conditions and increasing demand across all loan categories in the first quarter of 2017 in the euro area, mostly due to competitive pressure. In the previous quarter, credit standards for loans to enterprises eased slightly in net terms (-2%), as well as for loans to households for house purchase and consumer credit standards (-7% and -3% respectively).

Among the largest euro area countries, credit standards on loans to enterprises eased in Germany and Italy, and tightened in Spain in the first quarter of 2017.

For the second quarter of 2017, banks expect a slight net tightening of credit standards for loans to enterprises (2%), while they expect no change for housing loans and consumer credit.

Business outlook facing heightened uncertainty in the US and UK

Negative effects of the Brexit vote are beginning to feed into the UK economy, as discussed in Chapter 2. While business sentiment has reached record levels, underpinned by the weak pound, higher inflation is beginning to weigh on consumer spending and corporate profit margins. In this environment, insolvencies have been increasing for the past three quarters.[27] In Q1 of 2017, the number of businesses that filed for insolvencies was 5% higher than the same period in 2016. We expect this trend to continue this year as reflected by a 5% annual increase in our forecast. Increasing uncertainty surrounding negotiations with the EU and its impact particularly through business investment and confidence is weighing on the outlook.

Insolvencies are forecast to rise slightly in the US (2%) this year despite increased economic growth. As economic momentum has picked up in H2 of 2016, many firms, particularly in exporting sectors like manufacturing, have faced headwinds from the stronger dollar. An upside risk to the US insolvency outlook is the new administration's expected fiscal stimulus. This is also reflected in high business confidence. Tax cuts should increase capital spending and thus boost US GDP growth slightly and thus should have a mild downward pressure on the number of insolvencies. However, due to high policy uncertainty, this may also be a downside risk. Nearly half of all capital spending in the US comes from the energy, utilities and real estate sectors. Higher risk-taking in these sectors could potentially be de-stabilising due to large debt overhangs from oil price volatility.[28] Furthermore, the fiscal stimulus could also translate to higher-than-expected GDP growth, motivating the Fed to move more quickly with its rate hike schedule. This is also a downside risk for the US insolvency outlook, especially for the energy and related sectors as well as construction.

Another difficult year for EME corporates

In general, economic conditions in many emerging markets have slowed in 2016. Commodity exporters suffered from lower natural resource prices, while the slowdown in China negatively impacted trade and finances in many markets. In addition, many emerging

[27] This trend is excluding the sharp increase in Q4 of 2016 due to a changes to the claimable expense rules. Similar statistical adjustments were made for Denmark where a new form of company was introduced and a backlog of insolvencies was cleared in 2016.
[28] For further information, refer to the IMF's Global Financial Stability Report (April 2017)

markets struggle with a faster pace of US monetary policy normalization and the stronger US dollar. Also, bank lending conditions in emerging markets (EM) worsened in the fourth quarter of 2016, according to the Institute of International Finance (IIF) continuing a decline in the five consecutive quarters prior to Q4 of 2016.

Table 4.1 Insolvency growth[29]

	2017f
China	Increase
India	Decrease
Brazil	Increase
Russia	Increase
Turkey	Increase

Source: Atradius

The slowdown of economic growth last year in the BRIC countries, except for India, is expected to have consequences for the number of insolvencies this year. India is the only country maintaining its high economic growth. Therefore, the number of insolvencies is expected to decline this year. With China's economy slowing down and rebalancing, insolvencies are expected to increase substantially in 2017. Companies face a change in funding conditions and in the structure of the economy as it rebalances towards more services and consumption. This will inevitably lead to shrinking business opportunities, and an increase in insolvencies, with possibilities opening up in other sectors. Turkey is expected to see an increase in insolvencies this year due to high inflation, lira volatility and lacklustre trend in domestic demand. Moreover, rising political risks are weighing negatively on the growth outlook. In Russia, the elevated oil price is helping its economic recovery. However, GDP growth is weak, and a slight increase in insolvencies is expected. Also, in Brazil we expect a slight increase in insolvencies, as a delayed effect of its lengthy recession and despite the economic recovery expected during this year.

[29] We also applied our insolvency forecast model to the emerging markets. Because the model has been built on data from advanced countries, forecasts have to be taken with care; for the emerging markets, we can therefore only provide a general direction of the expected insolvency developments.

Appendix: forecast tables

Table A1: Macroeconomic headline figures - Developed markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Australia	2.5	2.5	2.8	1.3	2.2	2.7	-1.6	-1.1	-0.6	-2.7	-2.1	-3.1	7.6	4.2	3.0
Austria	1.5	1.7	1.6	0.9	2.3	1.8	-0.8	-1.0	-0.6	2.7	2.6	3.1	2.0	1.9	3.1
Belgium	1.2	1.5	1.6	2.0	2.4	2.0	-2.7	-2.4	-2.2	-0.4	0.3	0.4	6.1	2.9	2.3
Canada	1.4	2.4	1.9	1.4	2.1	1.7	-1.9	-1.9	-1.5	-3.3	-2.5	-2.8	1.1	1.8	2.3
Denmark	1.3	1.6	1.6	0.3	1.4	1.3	-1.5	0.3	-0.2	8.1	7.3	6.4	1.7	1.9	2.1
Finland	1.4	1.5	1.4	0.3	1.8	1.6	-1.9	-2.4	-2.7	-1.1	-0.1	-0.2	0.5	2.1	2.7
France	1.1	1.4	1.5	0.3	1.9	1.9	-3.4	-3.0	-2.9	-1.1	-1.3	-1.2	1.2	2.0	1.7
Germany	1.9	1.6	1.6	0.4	-0.2	0.4	0.7	0.6	0.5	8.9	8.3	8.4	2.4	3.6	3.2
Greece	0.0	1.2	2.1	0.2	1.4	1.5	-2.6	-1.6	-0.8	-1.0	-1.3	-1.4	-1.5	2.9	3.4
Ireland	5.2	4.0	2.8	0.5	2.1	1.9	-1.5	-0.6	0.2	4.5	11.5	9.0	1.4	3.6	2.6
Italy	0.9	0.9	0.9	-0.8	1.2	1.1	-2.4	-3.7	-2.6	2.8	1.7	1.7	2.6	2.0	2.2
Japan	1.0	1.4	1.1	0.0	0.8	1.0	-3.6	-3.1	-3.2	3.8	4.3	4.1	1.2	3.9	3.0
Luxembourg	3.5	3.7	2.8	-0.1	1.6	1.5	1.3	0.8	0.8	2.9	5.7	6.6	3.7	4.5	4.4
Netherlands	2.2	2.2	1.8	-0.1	0.9	1.5	-0.3	-1.1	-0.8	8.1	11.8	16.5	3.3	3.5	4.4
New Zealand	3.1	2.9	3.0	0.3	2.3	2.3	0.9	1.0	1.2	-2.7	-2.7	-2.7	1.6	0.5	2.1
Norway	0.8	1.6	1.9	0.3	1.2	1.3	2.7	4.4	5.8	4.0	3.0	2.0	-1.3	0.9	1.7
Portugal	1.4	1.7	1.5	0.6	2.1	2.2	-2.5	-1.7	-1.4	0.9	0.5	0.3	4.4	4.3	2.5
Spain	3.2	2.7	2.3	3.6	2.4	2.1	-4.5	-3.5	-3.1	2.3	0.9	0.9	4.4	4.4	3.8
Sweden	3.3	2.8	2.3	0.6	1.5	1.3	0.2	-0.4	-0.3	4.6	5.8	5.2	3.0	2.6	2.6
Switzerland	1.3	1.5	1.7	-0.2	2.5	1.9	0.8	0.3	0.2	9.8	8.0	7.2	4.6	2.3	2.6
United Kingdom	1.8	1.7	1.4	1.0	1.6	1.8	-2.9	-2.8	-2.6	-4.4	-3.3	-2.9	1.8	5.0	3.2
United States	1.6	2.1	2.4	-0.4	0.5	0.5	-4.2	-3.6	-3.8	-2.6	-2.3	-2.1	0.4	3.0	2.0
Eurozone	1.7	1.7	1.6	0.7	2.7	3.1	-1.7	-1.7	-1.5	3.8	3.7	4.1	2.8	3.2	3.0
European Union	1.8	1.8	1.7	1.3	2.5	1.9	-1.8	-1.9	-1.6	2.4	2.5	2.8	3.0	3.4	3.1

Sources: Consensus Economics, IHS

Table A2: Macroeconomic indicators - Developed markets

	Private cons. (% change p.a.)			Fixed investment (% change p.a.)			Government cons. (% change p.a.)			Retail sales (% change p.a.)			Industrial prod. (% change p.a.)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Australia	2.7	2.8	2.5	-2.4	-0.5	0.0	3.9	1.4	2.1	2.1	1.6	2.2	1.2	2.4	3.0
Austria	1.3	1.9	1.6	2.6	1.6	0.0	1.5	1.4	1.3	0.7	0.1	0.0	1.6	2.4	2.1
Belgium	0.7	1.3	1.4	2.1	2.3	0.0	0.2	0.7	0.9	-2.9	-1.1	0.4	4.4	1.4	2.0
Canada	2.2	2.4	2.0	-3.2	-0.4	0.0	2.0	2.5	2.0	2.3	0.6	0.3	-0.3	2.4	0.6
Denmark	1.9	1.4	1.0	5.2	1.7	0.0	-0.1	0.0	1.0	-0.7	-0.8	0.3	3.6	2.2	1.3
Finland	2.0	1.0	1.3	5.2	2.0	0.0	0.5	-0.1	0.2	0.4	4.7	1.6	2.3	2.6	2.2
France	1.8	1.3	1.3	2.8	1.6	0.0	1.4	1.4	1.1	1.3	0.9	1.5	0.2	1.0	1.3
Germany	1.8	1.5	1.4	2.1	2.7	0.0	4.0	2.2	1.4	1.2	0.7	0.3	1.0	3.2	2.5
Greece	1.4	1.3	1.5	0.0	3.5	0.0	-2.1	-0.8	0.8	-1.3	1.5	1.7	2.3	1.4	3.0
Ireland	2.8	1.8	2.5	6.8	3.6	0.0	5.2	2.5	1.6	4.4	0.9	2.0	1.0	-2.1	2.1
Italy	1.3	0.5	0.5	3.1	1.8	0.0	0.6	0.7	0.8	0.0	-0.8	0.8	1.9	2.0	1.7
Japan	0.4	0.9	1.0	1.0	2.0	0.0	1.5	0.7	0.7	-0.7	1.6	1.5	-0.5	4.2	1.4
Luxembourg	1.2	2.2	2.3	0.0	5.8	0.0	3.9	1.9	2.0	12.1	5.5	0.8	-0.4	0.4	2.1
Netherlands	1.7	1.7	1.5	4.8	2.1	0.0	1.0	1.3	1.6	1.6	0.9	0.9	2.1	1.0	1.3
New Zealand	4.2	3.2	2.4	5.7	2.1	0.0	2.3	1.5	1.8	4.1	2.2	0.7	0.9	2.2	1.9
Norway	1.5	1.5	1.4	0.3	1.8	0.0	2.2	2.4	2.8	-1.4	0.8	1.1	-1.7	1.8	1.7
Portugal	2.3	1.5	1.2	-0.3	3.0	0.0	0.8	0.6	2.2	1.2	1.0	0.0	1.0	1.7	1.6
Spain	3.2	2.4	2.0	3.1	2.5	0.0	0.8	0.6	0.6	2.4	-0.6	0.6	2.0	1.9	1.5
Sweden	2.2	1.7	1.7	5.5	3.4	0.0	2.7	1.7	1.6	2.1	0.7	0.6	1.1	1.7	1.6
Switzerland	1.2	1.6	1.3	2.5	1.0	0.0	1.9	1.4	1.5	-2.0	0.1	0.6	-0.2	2.5	2.4
United Kingdom	2.8	1.6	1.0	0.5	0.5	0.0	0.8	0.9	1.2	2.6	2.0	1.0	1.2	1.7	1.5
United States	2.7	2.7	3.3	0.7	3.9	0.0	0.8	0.1	0.1	1.7	2.2	2.6	-1.2	2.3	2.9
Eurozone	1.9	1.4	1.3	2.7	2.3	0.0	1.8	1.4	1.1	-	-	-	1.4	2.0	1.9
European Union	2.2	1.6	1.4	1.9	2.1	0.0	1.7	1.4	1.2	-	-	-	1.5	2.0	2.0

Source: IHS

Table A3: Macroeconomic headline figures - Emerging markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Current account (% of GDP)			Private cons. (% change p.a.)			Export growth (% change p.a.)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Asia-Pacific	4.7	4.8	4.6	2.0	2.3	2.8	2.1	2.7	2.4	5.0	4.9	5.6	2.7	5.0	5.2
ASEAN	4.6	4.6	4.7	2.8	2.2	3.5	3.3	3.0	2.9	4.8	4.7	4.9	2.7	4.4	4.1
China	6.7	6.6	6.2	1.4	2.0	2.1	1.8	3.0	2.8	5.6	5.3	6.4	3.3	5.6	5.9
Hong Kong	1.9	2.2	2.1	3.0	2.4	1.9	4.4	4.1	3.9	1.6	2.1	2.3	0.8	2.8	3.5
Taiwan	1.5	2.1	2.0	-0.3	1.4	1.3	13.4	12.9	12.4	2.1	2.0	2.3	1.9	2.5	2.6
India	7.0	7.3	7.6	4.9	4.9	5.0	-0.6	-1.2	-1.9	6.4	7.0	7.9	2.1	7.0	8.6
Singapore	2.0	2.4	2.2	-0.5	-0.5	1.5	20.0	19.9	20.7	1.0	2.5	4.4	1.6	3.6	3.2
Latin America	-0.6	1.6	2.6	14.8	50.5	14.1	-2.4	-2.1	-2.1	-2.3	0.9	2.2	1.0	1.0	2.4
Argentina	-2.3	2.7	3.0	16.4	37.5	24.7	-2.7	-2.2	-1.4	-1.4	1.7	2.8	4.2	2.1	2.8
Brazil	-3.6	0.6	2.5	9.0	8.7	4.0	-1.3	-1.4	-1.9	-4.3	-0.4	2.2	1.6	1.3	3.9
Mexico	2.3	1.8	2.2	2.7	2.8	5.6	-2.7	-1.5	-1.4	2.5	2.0	2.0	1.2	0.8	1.8
CIS	0.3	1.7	2.1	15.4	8.1	5.0	0.3	2.5	1.1	-2.1	2.4	3.1	2.5	3.3	2.9
Czech Republic	2.3	2.5	2.6	0.3	0.7	2.5	1.0	0.5	-1.1	2.8	2.8	2.6	4.0	6.6	4.0
Hungary	2.0	3.3	3.2	-0.1	0.4	2.8	4.9	2.4	1.8	4.1	3.9	3.6	5.8	2.8	3.9
Poland	2.7	3.4	3.2	-0.9	-0.6	2.1	-0.5	-0.6	-0.5	3.5	3.5	3.2	8.3	3.4	3.3
Russia	-0.2	1.3	1.7	15.5	7.0	3.8	1.9	4.3	2.4	-4.5	1.5	2.5	3.1	1.8	2.2
Turkey	2.9	3.1	3.2	7.7	7.8	11.0	-3.6	-4.8	-5.2	-0.7	2.2	3.0	-4.8	1.4	3.3
Africa	2.0	2.9	3.3	7.5	12.3	12.4	-5.9	-5.9	-6.0	2.4	2.9	3.8	-1.0	5.9	5.2
Nigeria	-1.5	1.2	2.8	9.0	15.7	17.3	-2.8	-2.6	-3.1	-2.4	1.5	5.3	-9.4	8.6	0.5
South Africa	0.3	1.0	1.7	4.6	6.3	6.0	-3.2	-4.0	-4.5	0.8	1.1	0.7	-0.1	3.5	3.1
MENA	2.6	2.7	3.8	4.5	5.0	6.2	-2.2	-0.1	-0.1	3.4	3.1	3.8	3.5	3.4	5.4
World	2.5	2.9	3.0	2.4	4.8	3.4	-	-	-	2.4	2.7	3.2	2.3	3.7	3.7

Sources: Consensus Economics, IHS

Table A4: Insolvency growth (% per annum)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017f
Australia	-4	18	3	-1	5	1	4	-22	10	-12	-1
Austria	-6	0	9	-8	-8	3	-10	-1	-5	1	3
Belgium	1	10	11	2	7	4	11	-9	-9	-6	0
Canada	-7	-2	-12	-25	-11	-11	-2	-2	-1	-7	-2
Denmark	21	53	56	13	-16	2	-10	-20	1	4	5
Finland	6	26	27	-7	-4	7	10	-11	-22	15	-9
France	7	8	14	-5	-1	3	2	0	1	-8	-5
Germany	-15	0	12	-2	-6	-6	-8	-7	-4	-7	0
Greece	0	30	40	30	33	30	10	3	10	3	-2
Ireland	19	100	50	10	7	3	-19	-15	-10	-1	-3
Italy	-35	18	29	21	8	14	16	10	-6	-7	-4
Japan	6	11	-1	-14	-4	-5	-10	-10	-9	-4	0
Luxembourg	5	-13	17	33	5	8	2	-20	6	14	2
Netherlands	-13	-14	53	-9	0	19	10	-22	-24	-19	-12
New Zealand	-5	-35	45	-5	-12	-7	-13	-7	4	1	-2
Norway	-6	28	38	-12	-2	-12	20	5	-7	2	2
Portugal	-12	54	36	16	18	42	8	-9	12	-6	-4
Spain	13	180	79	-4	18	37	13	-28	-22	-19	-8
Sweden	-5	7	20	-11	-3	11	5	-7	-9	-4	3
Switzerland	-5	-10	4	15	1	-4	1	-7	7	3	1
United Kingdom	-5	21	24	-15	4	-5	-7	-6	-9	1	6
United States	42	52	41	-7	-15	-16	-17	-19	-8	-2	2

Sources: National bureaus, Atradius Economic Research; f=forecast

Table A5: Insolvency level, index (2007 = 100)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017f
Australia	100	118	121	120	126	127	133	104	115	101	100
Austria	100	100	110	101	93	96	87	86	82	83	86
Belgium	100	110	123	125	133	138	153	140	127	119	119
Canada	100	98	86	65	58	51	51	50	49	46	45
Denmark	100	153	238	270	227	231	207	166	167	174	182
Finland	100	126	161	149	144	154	169	151	118	136	124
France	100	108	123	118	116	119	122	122	123	113	107
Germany	100	100	112	110	103	97	89	83	79	74	74
Greece	100	130	182	237	315	409	450	463	510	525	515
Ireland	100	200	300	330	354	365	296	252	228	225	218
Italy	100	118	151	183	197	223	259	285	268	249	239
Japan	100	111	110	95	90	86	77	69	63	60	60
Luxembourg	100	87	102	135	141	152	155	124	130	148	151
Netherlands	100	86	132	119	120	143	157	122	92	75	66
New Zealand	100	65	94	89	78	73	63	59	61	62	60
Norway	100	128	176	156	153	134	160	169	157	160	163
Portugal	100	154	210	242	286	405	438	398	446	417	401
Spain	100	280	501	483	572	784	885	635	493	401	369
Sweden	100	107	128	114	111	123	129	120	109	105	108
Switzerland	100	90	94	108	109	105	106	98	105	108	109
United Kingdom	100	121	150	127	133	126	118	111	101	102	108
United States	100	152	215	199	169	142	118	95	88	85	87

Source: National bureaus, Atradius Economic Research; f=forecast