Atradius

Managing risk, enabling trade

May 2016

Economic Outlook

Slower for longer

Editorial

'A shot in the arm', she called it. Ms Christine Lagarde, the IMF Managing Director, sighed with relief when the oil price plummeted in late 2014 and it became clear that it would remain low. It was a powerful metaphor: the ailing patient – the world economy – would get precisely what it needed to get back on its feet.

It seemed a no brainer – it is the opposite of what occurred during the two oil crises that hit the world economy in the 1970s. Back then, the oil price ran up rapidly, causing aggregate demand to drop. Additional spending in the oil-exporting countries was way behind the forced lower spending in the importing countries. Therefore, a lower oil price would simply do the reverse: boost aggregate demand and increase spending in importing countries – right?

Two years after the oil price drop, the patient is still ill and, worse yet, the prognosis is still changing. The doctors are finally admitting that this symmetrical reasoning does not actually provide the best basis for finding a cure. Additional spending in oil-importing countries is at best lagging the spending cuts in the oil-exporting countries. At this point, the oil price seems to have already bottomed out and the possible benefits of the 'shot in the arm' already start to fade.

What now? The medical toolkit is nearly used up. Monetary policy has kept the patient alive during the most critical periods, but it has reached its limits. Interest rates are so low that cash hoarding is a realistic threat, robbing the instrument of its effectiveness. Fiscal policy seems a natural option now that the government can borrow for nearly free or even receive a small fee. But this instrument is constrained by high public debt and a blatant lack of political willingness. It seems like stagnation will simply have to run its course and the patient will have to cure itself.

In this edition of the Atradius Economic Outlook, we provide our own examination of the health of the global economy and what symptoms it needs to watch out for in the coming year to ensure its (very gradual) recovery. In this environment, it is clear that default risks for businesses are on the rise. Indeed this is what investors' risk aversion indicators suggest, as well as the credit conditions for firms in emerging market economies. Insolvencies are expected to rise, especially in China, Brazil and Russia. The drag on global growth that this causes is the primary reason that little to no change is forecast across most advanced economies. Some major economies are finally seeing business failures dip below pre-crisis levels, but a faint relief to the patient it may be.

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Executive summary

The turbulent waters that the global economy faced at the beginning of the year have calmed but the underlying issues persist and the world is facing another year of sluggish growth. With more uncertainty in emerging markets and failure to find the cure for stagnation in advanced economies, it appears that the world economy will continue slower for longer.

Key points

- Global economic growth is forecast to slow to 2.4% in 2016, down from 2.6% last year. In 2017, a slight pick-up to 2.8% is anticipated.
- The economic recovery in advanced markets, while steady, is still fragile. Forecasts for both the eurozone and US have been revised down since the last Outlook. In 2016, the eurozone is forecast to expand only 1.5% while the US will slow down to 2.0% growth.
- Another contraction of -0.6% is forecast in Latin America while Eastern Europe continues its recovery with 1.1% growth this year. Emerging Asia will experience the most rapid growth in 2016 with a 5.6% expansion.
- The global business environment has weakened. Atradius forecasts zero change in insolvencies across advanced economies while increases are forecast for most major emerging markets.

A significant boost to global growth still has not come, and we are faced with another year of slow growth with high risks. In Chapter 1, reasons for the disappointing outlook are addressed. Most important are deleveraging (or lack thereof), the limitations of non-conventional monetary policy and the inability to implement effective fiscal policy. Low commodity prices are still not providing a boost to the global economy and world trade continues to hold back growth. Atradius forecasts world trade growth to be flat at 2.5% in 2016.

The most important risks to the outlook remain the slowdown in China and the misguided US monetary policy. The probability of both issues is low but the impact would be large and on a global scale, especially on capital flows, currencies, and external corporate debt in emerging markets.

Advanced economies, discussed in Chapter 2, are still enjoying demand-driven recoveries, however the negative impact of slower growth in emerging markets and external demand for exports has had a negative effect on growth. Most eurozone countries are expected to see modest growth in 2016 but crisis legacies, especially within the banking sector, are still clouding the outlook. Previously solid growth in the US has been challenged by lower exports and falling investment in the oil and gas sector. The UK is facing headwinds related to uncertainty over the upcoming EU-membership referendum.

Chapter 3 presents the latest developments and annual outlook for a range of emerging markets. Growth is forecast to slow to the lowest pace since the global crisis. Some common obstacles facing emerging markets are low commodity prices, US monetary policy normalisation, geopolitical tensions and capital outflows.

These rather negative economic developments are reflected in Atradius' insolvency forecasts, presented in Chapter 4. After a 7% decline in insolvencies across advanced markets in 2015, zero change is forecast this year, the worst performance since the 30% increase in 2009. The eurozone as a whole is forecast to see only a 2% decrease in bankruptcies while slight increases of 2% are now forecast in both the US and UK. Debt overhang is straining businesses in the eurozone periphery while low commodity prices are continuing to challenge the business environments in the US, Australia and Canada. Commodity prices are especially dire for many emerging markets, like Russia and Brazil which are forecast to see a strong rise in insolvencies this year, exacerbated by unstable politics. If global growth continues 'slower for longer', the insolvency environment will become increasingly difficult.

1. The global macroeconomic environment

1.1 Real GDP growth – global regions
Annual percent change

Source: IHS

Growth pressures mount

In our November Economic Outlook we highlighted three issues that dominated the global scene: Federal Reserve (Fed) policy, China and the low oil price. Now, half a year later, it appears that nothing has fundamentally changed. The Fed still dominates financially. China is central for developments in emerging economies. And the global impact of low oil price – supposed to be a 'shot in the arm' – is still a puzzle.

But something may still have changed. We have observed a phenomenon, a widespread turmoil in the financial markets, of which a first glimpse was seen in the summer of 2015 when China faltered. Turmoil in the global financial markets dominated the first months of 2016. Now the question is: what caused the turmoil? We see three additional issues, clearly not unknown but still less acknowledged, that could and should worry investors in a growth depressing 'new normal' environment:[1] the limits of monetary policy, the lack of potency of fiscal policy and deleveraging. These factors have weighed and will continue to weigh on GDP growth. Investors have arguably become increasingly aware of these. The Fed announcement in March to lower the pace of rate hikes has, at least for the time being, taken their financial impact away, but not their presence. They may resurface anytime soon.

In 2016, global economic growth is expected to slow to 2.4%, from 2.6% in 2015. The outlook for this year has deteriorated since November – which may not come as a surprise considering the picture sketched above. In 2017,

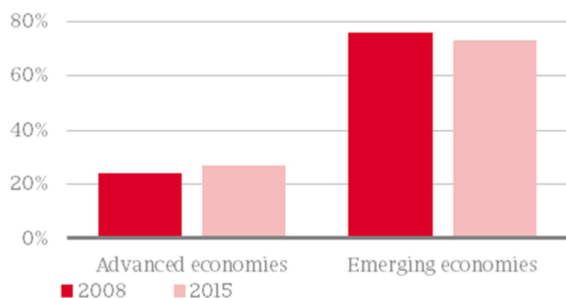
[1] We elaborated on this in our May Economic Outlook, highlighting aging, slower technology adaptation, lower investments and infrastructure constraints.

a return to 2.6% growth is foreseen, supported by a recovery in Latin America. This is a very mild pick-up, possibly signalling why forecasters are starting to tune down their usual optimism – finally.

Weak 2015 with EMEs still in driver's seat

Global GDP growth struggled to gather pace in 2015, sliding to 2.6%, in line with our predictions. Advanced economies began seeing a meaningful recovery. The eurozone surprised positively while the US economy grew at a much stronger pace. Emerging economies slowed. Latin American GDP shrank every quarter during 2015 as Brazilian economic (and political) conditions worsened. Asia powered on and continued to lead the global pack, although Chinese growth slowed as the economy rebalances towards more services, and away from investment and construction. The upshot is that the growth difference between advanced economies and emerging economies has narrowed to levels seen only long before the 2015 crisis. Still, GDP growth in emerging economies is, at 4%, twice as high as in advanced economies.

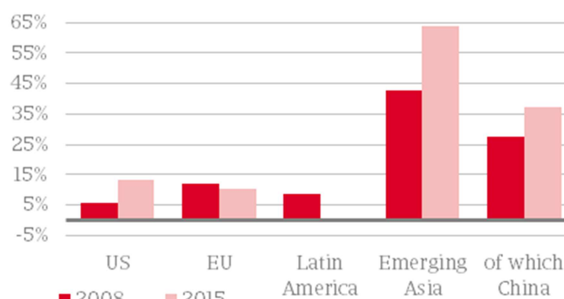
1.2 Contribution to global GDP growth
Percent of total



Sources: IMF, Atradius

That message is underscored by the contribution to global growth of the emerging economies.[2] In spite of being slightly under pressure, the figure remains comfortably above 70%. Within the group of emerging economies we have Asia, and more particularly China, that is still leading. The growth contribution percentages of more than 60% and 37% in 2015 respectively are impressive and significantly up compared to the crisis year 2008. Indeed, for global growth, now and in the future, one should definitely look to Asia and China – for risks to the global economy too.

1.3 Regional contribution to global GDP growth
Percent of total



Sources: IMF, Atradius

Slower trade growth: made in China

We have previously warned that trade growth,[3] while already being on a slower track,[4] was bound to disappoint in 2015. Trade growth in the first half of 2015 had been lacklustre, especially in Asia and Latin America. China was brought in focus, as its rebalancing and slowdown started to bite into the data. Declining investment intensity in China led to lower Chinese import demand for machinery, metals and oil. Based on preliminary 2015 data, we expected the global indicator to show a reading well below 3%, the initial forecast. Annual data now confirm that world trade growth has slid back to 2.5% in 2015.[5]

The composition of this expectedly low figure, however, is surprising. Asian trade was indeed low, but it was actually negative. Asian imports alone were down almost 10%, led by China, which accounts for nearly 90% of import growth.[6] Asian exports were nearly flat. In Latin America, trade increased slightly, supported by strong growth in exports and broadly flat imports. Brazil's exports dominated the data, being the largest regional economy. Another notable development is much lower trade growth in the US, while the eurozone trade grew as projected.

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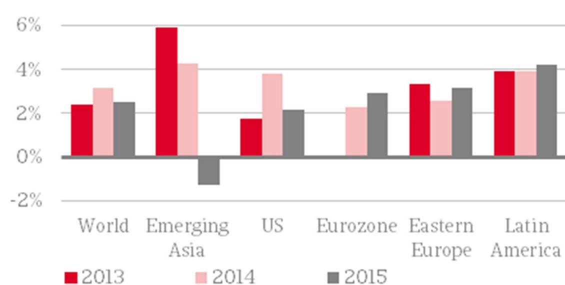
[2] **This variable is calculated as regional (or local) GDP growth times share in global GDP.**

[3] **Throughout, we refer to trade growth as measured in volumes (exports and imports).**
[4] **We documented the reasons for a slower track in our November 2015 Economic Outlook.**
[5] **This is a Dutch Centre for Policy Research figure calculated as a rolling 12 months average (of imports and exports, unweighted) compared to the previous year. IMF reports 2.6% in its latest update.**
[6] **Constantinescu, C., Mattoo, A. and Ruta, M., Trade Turbulence, Finance & Development, March 2016.**

1.4 Regional trade growth
Volume, percent change per annum



Source: CPB

A key conclusion of these recent trade developments is simply that the impact of Chinese developments cannot be overstated. Lower demand for commodities in China has been one driver of low commodity prices. Lower commodity prices hurt commodity exporters, largely comprising Latin America. Export volumes grew, but the foreign income from exporting commodities shrinks, reducing import volumes. The impact is reinforced by the currency depreciation of these countries. Such depreciation is in turn (partly) induced by lower export earnings. Latin American countries simply have less to spend on imports. Export volumes on the other hand are boosted by the same depreciation. This is what we have seen in China in 2015.

2015 can also be seen as a year of adjustment to China's slowdown and rebalancing of the economy towards more consumption and services. Considering this, the impact may not be that large in 2016 and beyond. Trade growth forecasts reflect this: the WTO expects the global reading to be 3.9% for 2016 and the IMF forecasts 3.4%. Support for a modest turnaround in trade growth can be derived from the Baltic Dry Index, which has gone up from 291 to the still low 400. Our own international trade growth forecasting model suggests much more moderate growth at 2.5% (meaning no change to the 2015 reading).

It is important to point out that the changing pattern of trade that we have observed in 2015 is very much a reflection of changes in the global economy. These changes determine, rather than reflect, global economic activity and encompass trends regarding the pattern of production specialisation, the extent to which trade is hindered by tariffs and other trade distorting measures as well as developments in trade finance.[7] Some news is to be reported in this regard. First and foremost, in February 2016 the Trans-Pacific Partnership agreement was signed. This should provide a boost to trade between the US and Asia-Pacific countries, excluding China. It still needs to pass the hurdle of Congress. Furthermore, the WTO reports that new trade hindering measures introduced in 2015 are flat as trade facilitating ones grew, suggesting a positive development. While steps are being taken in the right direction, the continuously increasing stock of trade hindering measures since 2008 remains a source of concern.[8]

Commodity prices lower for longer

Somewhat to our surprise, and that of many other analysts, the oil price has continued on its downward path since the November Economic Outlook, even – briefly - to levels below USD 30 per barrel Brent. It was a surprise, because at levels below USD 50 significant cutbacks in US shale production were expected as production would simply no longer be economical; fitting in the OPEC strategy.[9]

1.5 Oil price
USD per barrel of Brent crude oil

Source: IHS

Indeed, US shale production that had nearly doubled in 2015 was widely forecast to reverse. But that did not happen: in February 2016, US production was still close to nine million barrels per day, for reasons described in Chapter 2. The OPEC strategy of outcompeting shale hardly seemed to work.[10] On the demand side, the low oil price did not spur energy consumption as expected. The result of high supply and lagging demand was oversupply:

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[7] **For more details see e.g. Atradius Economic Outlook, November 2015.**

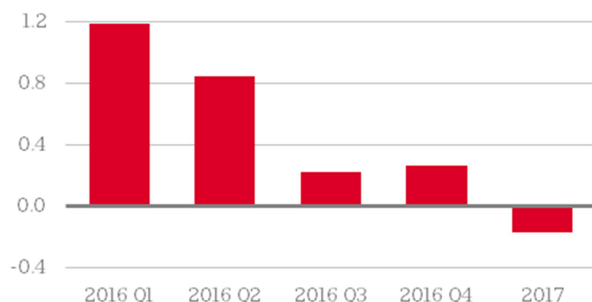
[8] **See WTO, Overview of Developments in the International Trading Environment, November 17, 2015.**

[9] **Cutbacks in shale production are precisely what OPEC countries eyed in November 2014 when deciding not to adjust production. This would help restore prices and OPEC being better off with a higher market share as well. OPEC had learned from previous crisis such as in the eighties. In those days production was reduced, but prices remained low as others stepped in to fill the gap. OPEC was left with a lower market share, at lower prices.**

[10] **A recent FT article reports that Saudi Arabia is losing market share in no less than 9 out of 15 of its most important markets between 2013 and 2015, including China, South Africa and (inevitably) the US. Russia and Iraq are filling in. See FT, Tuesday March 29, 2016.**

piling oil stocks, to unprecedented levels. The trend of oil stock-building will continue at a declining pace until Q1 of 2017 as prices recover gradually.

1.6 Oil stock-building
Percent of total demand



Source: IEA

As US shale production yields and Iran's re-entry has limited impact, it appears that the oil price reached its floor around USD 30 per barrel in early 2016. This was re-inforced by Russia's and Saudi Arabia's, the two largest oil producers, discussions to freeze output at January levels (though they did not follow through). As a result, speculative short positions in the financial market were eliminated,[11] with a positive impact on the oil price. The price has since risen gradually to above USD 45 per barrel. That, however, does not remove the need to adjust our forecast downward. The oil price is set to remain low for longer.

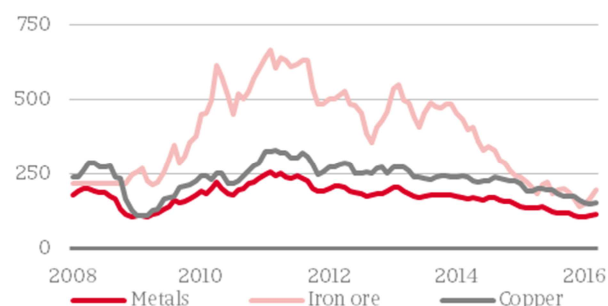
While the oil price in our November Economic Outlook was at USD 51 for 2016 and USD 59 for 2017, we now work with US Energy Information Administration price forecasts of USD 35 by the end of 2016 and USD 45 by the end of 2017. The IMF is slightly more optimistic, with futures-based prices forecast at USD 42 in 2016 and USD 48 in 2017.[12] In any case, given the high supply and demand elasticities, price volatility will remain high.

The lower for longer oil price raises the question as to the impact on global demand. Oil exporters such as the Middle East and Russia feel the pain. But lower energy costs are supposed to counteract this by offering more purchasing power to consumers, and thus boosting spending, in importing countries. Thus far it is not the case, spending of oil importers is outweighing the losses for oil exporters.[13] On the side of the oil exporters, the impact of the negative shock on demand is unambiguous. The main reason is that fiscal buffers in many of these countries allow only limited smoothing of depressed demand through additional government spending. The impact of the shock is immediate and almost complete. On the other hand, the additional income in importing countries is not being fully spent, or is at least significantly lagging. Some countries have also limited the pass-through of lower prices by, for instance, lowering or even eliminating energy subsidies. Moreover, additional pressure on global demand comes from the significant reduction of investments in oil (and gas) extractions. The net result of these forces on global demand in practise may therefore not be positive, or not yet positive.

The market for other commodities, especially metals, paints a broadly similar picture as the oil market, except that China is more central. China's share in global consumption of metals has increased from 10% to 20% in the early 2000s to over 50% now. Now as China rebalances, there is an oversupply. This has set in motion a battle for market share between the giant firms and low-cost producers in China that dominate the market, with dramatic impact on prices since 2011.

This price pressure could obviously not continue forever, and since the start of 2016, prices of iron ore, aluminium and zinc in particular have started to recover. At the same time, the probability of a price increase as measured by futures has gone up as well.[14] There are temporary factors involved though, such as lower exports from Australia and rain-induced supply disruptions in Brazil. Moreover, copper prices have not revived as global economic activity remains subdued and the expectations for aluminium prices remain low due to Chinese supply overhang. With this, alongside weak GDP growth forecasts, strong price recovery seems unlikely.

1.7 Global commodity prices
Price index 2005 = 100



Source: IHS

With prices set to be low for longer in the non-fuel commodity markets the impact for global economic

[11] Short positions speculate on a further decline of the oil price. Oil is sold at a later date against a fixed price with the delivery based on the future (lower) price, leaving the seller with a speculative gain.
[12] The IMF forecast is a simple average of the Brent, Dubai and WTI oil price benchmarks. See IMF, World Economic Outlook Update, January 2016.
[13] IMF, Global Prospects and Policy Challenges, G-20 Finance Ministers and Central Bank Governors' Meetings, February 26-27, 2016.
[14] See IMF, Commodity Price and Outlook & Risks, March 2016.

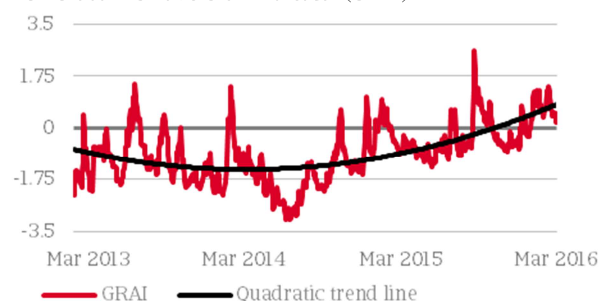
development comes into the picture. The impact of low non-fuel commodity prices is much less clear than that of low oil prices.[15] Whereas there is consumption-smoothing expected by oil exporters, this is less likely to be the case for commodity exporters. The pressure on demand is therefore expected to be larger, and, assuming the benefit for the importers is similar as for the case of oil, the overall impact on the global economy is lower. Moreover, there is a risk of non-linearities in the exporting countries, with potential financial stress, defaults and contagion risks higher than in the case of oil where countries have built more buffers.

Financial markets versus the Fed

The summer 2015 turmoil in global financial markets that we reported in the previous outlook was framed in the context of developments in China. As the Chinese stock exchange index had raced up since early 2015, a correction seemed inevitable. The renminbi devaluation was another matter, triggered by somewhat clumsy timing and communication by the monetary authorities. The global reaction that followed was short lived and it seemed lingering unrest in the financial markets had been silenced. That turned out to be wrong. As the ECB Global Risk Aversion Indicator (with smoothed quadratic trend line) shows, risk aversion had been on the rise since the summer of 2014.[16] According to the IMF, this rise reflected persistent muted growth in advanced economies and questions about the speed at which the Chinese economy slows and the accuracy of the responses of their authorities.

1.8 Global risk aversion

ECB Global risk aversion indicator (GRAI)



Source: ECB

Increasing risk aversion and financial volatility came indeed following the first Fed rate hike of only 0.25% in late December. In January global stocks, including those of banks, plummeted, and took a hit of more than 8%. A leading emerging market risk metric, the emerging economies' sovereign spread over safe haven government bonds, worsened significantly as well. Conversely, even safe haven bonds, such as the one of the German sovereign yields, moved to historical lows – the short term ones even further into negative territory. The turmoil did not last, however. In late March most of the metrics had shown important recovery. Fed policy is one explanation for this.

1.9 Emerging market sovereign spreads

Emerging Markets Bond Index (EMBI)

Source: JP Morgan

The interest rate hike implemented by the Fed in December 2015 was generally considered accurate. What turned out to be inaccurate was the implication that there were four more hikes to follow during 2016. While the US economy may be ready, the global economy certainly is not. When financial markets became aware of this, they revolted. The turmoil forced the Fed to rethink the policy and on March 13th the institution announced, de facto, that it would limit the 2016 rate hikes to two. In that sense, the Fed policy has eased again.[17] The global economic situation was mentioned to have guided this decision, highlighting our earlier stance that the Fed has gone global. The point is clear: the current global economy can simply not cope with a significantly tighter US monetary policy – at least not yet. And the US economy would be affected by it.

The problem is in the link between finance and growth. With tighter Fed policy financing, conditions in particularly emerging economies would further worsen. This would be through higher rates and less availability of finance. More expensive finance is a problem, but constrained availability is perhaps even more serious. And the latter has now become a real source of concern. Still, broad scale financing issues are not in the cards at this stage.

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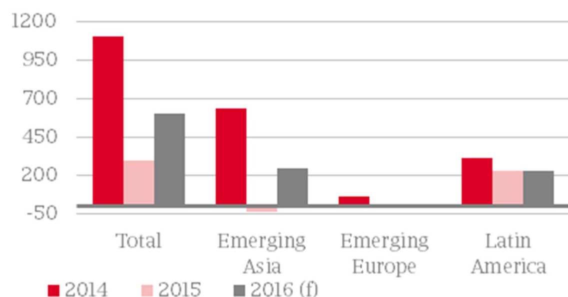
[15] IMF, World Economic Outlook, October 2015.
[16] That followed a relatively flat aversion since the May 2013 announcement that the Fed would phase out quantitative easing.

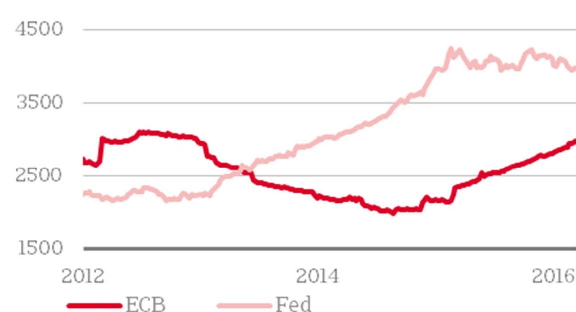
[17] With futures indicating only one FED hike in 2016 the alignment of the FED with financial markets still seems incomplete and may give rise to further volatility.

1.10 Capital flows to emerging economies, USD bln
USD billion



Source: IIF

1.11 ECB and Fed balance sheets
Assets, billions of euros



Sources: IHS, ECB, Fed

In our November Economic Outlook we already reported a forecasted halving of the capital inflows to emerging economies for 2015. This now turns out to be even worse. Capital inflows for 2015 have been revised downwards from USD 548 billion in November to USD 293 billion (down from USD 1.1 trillion in 2014). This has a lot to do with Chinese corporates repaying cross-border debt, in anticipation of further renminbi weakening. Still, barring China, inflows to emerging economies almost halved, from USD 661 billion in 2014 to an estimated USD 341 billion in 2015. Only Latin America was able to keep up inflows to some extent, a notable observation in light of the relatively large GDP contraction. The picture for 2016 remains bleak, even without lasting turmoil in the financial markets. Overall inflows are expected to be considerably below 2014 levels, with some recovery in Emerging Asiawhile Latin America is expected to remain flat. Lasting turmoil in the financial markets, now avoided, would clearly not help the already under pressure growth in emerging economies.

Monetary policy expansion reaches its limits

While the Fed is already adopting a tightening stance, monetary policy easing in the eurozone has been given a boost in two steps. Firstly, in December it lowered its deposit rate by 0.1% and extended the EUR 60 billion per month asset purchase programme. Secondly, in March far more aggressive steps were taken by: (i) lowering the refinancing rate by 0.05% to zero, (ii) increasing the asset purchase programme to EUR 80 billion, (iii) including high-rated corporate bonds as eligible assets and (iv) the availability of ultra-cheap four year loans to banks (LTROII).

One should be careful to conclude monetary policy stances are really diverging, however. The Fed stance is still accommodative, especially now that only two rate hikes are expected this year. With this in mind, the picture of continued global monetary easing is arguably more accurate.[18] The question is now whether it all still helps to fight off the current low growth period. Or, alternatively, is monetary policy reaching its limits?

Consider a prominent interpretation of what is currently going on in the global economy. Former US Treasury Secretary Larry Summers, among others, argues that there is a global savings glut relative to investment options. This occurs as a result of aging, weak wage growth, overflexible labour markets and rising inequality on the one hand. The latter has the effect of concentrating a larger part of global wealth in the hands of a group with a higher propensity to save (rather than consume). On the investment side, there are reductions in capital spending as a result of new technology. The result is a continuous lack of demand (relative to supply) and pressure on interest rates. Monetary easing of central banks seems to fit neatly into this picture as an attempt to help boost demand (and in that manner keep up with the inflation objective of around 2%). Arguably, it has worked since the crisis, especially for the Fed. Now, however the limit of monetary easing has been reached.

This limit is called the liquidity trap. It is caused by the fact that interest rates are bound by a zero interest rate in a situation where the savings glut has not been absorbed. Interest rates need to decline further, below zero, but they cannot; if rates go below zero people start to hoard cash and the banking system is turned upside down (see below). What then happens is what we currently see. As the interest rate cannot go down further, it is the volume component (rather than the price, viz. interest rate) that needs to do the adjustment and re-equilibrate savings to

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[18] In support of this, the Bank of Japan has also further eased its monetary policy.

investment. It means stagnating economic activity, that reduces investments.[19] The current growth pressure can be interpreted according to this view as simply a way to achieve a new macroeconomic equilibrium.

What can central banks then still do? With lower interest rates barred, the solution seems to be pump more money into the financial system: quantitative easing. The problem here is that savings need to be reduced relative to investment. Pumping money into the system does not help: as long as consumption growth is insufficient for investment to be boosted, firms will not invest and thus not take up the loans. Money will only circulate in the financial system. Monetary policy has become ineffective.[20]

1.12 Global bank performance
MSCI World Banks Index, 1998 = 100

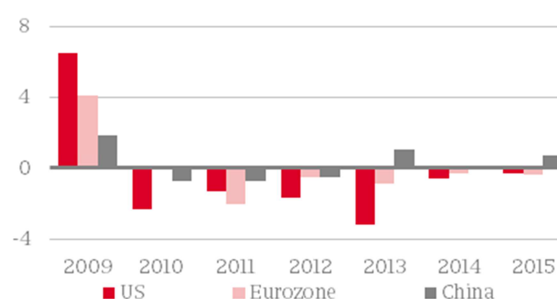
Sources: Morgan Stanley, IHS

Meanwhile the zero, or near zero interest rates have a negative side effect for the institutions that need to transmit monetary policy: banks. Since mid-2015 the MSCI index for world banks has lost more than 25% of its value – eurozone banks even more than 45%. Bank profits are already under pressure due to the weak global growth as well as, at least for the eurozone, legacies of non-performing loans (NPLs). Now the zero interest rate environment dents profit margins further as banks are reluctant to pass on negative rates to depositors for fear of losing them. This puts pressure on already weak lending: it is the bank profit margin which needs to absorb NPLs. Then, fulfilling already weak loan demand for investment from firms comes under further pressure. Monetary policy impotency is reinforced.

Fiscal policy with limited teeth

With expansionary monetary policy since the crisis the question that can be asked is: to what extent has fiscal policy supported growth? To investigate this, the change in government deficit is a relevant parameter, not so much as the government deficit itself. An increase in agovernment deficit, such as in 2009 following the crisis, provides an impulse to GDP growth. If the government deficit is lowered, growth is suppressed.[21]

1.13 Government impulse to growth
Government deficit, percent of GDP



Source: IMF WEO

In this light, government stimulus has been reduced since the crisis, in the US and the eurozone. Even China has suppressed growth, with the exception of 2013 and 2015 when small stimuli were given. The picture that emerges is, therefore, one of governments using the fiscal brakes. Considering the levels of government debt in the US and eurozone, which are above the 85% threshold, this is understandable. Had the fiscal brakes not been used, the government deficit would most likely have been much higher, and the imminent deleveraging more severe. Still, with these levels of public debt in the US and eurozone, the stimulus of these governments to GDP in 2016 and 2017 can only be expected to be muted at best. This does not hold for China, however, which has given its low government deficit relatively ample room for impulses to spur growth. Furthermore, it can be argued that the eurozone figure provides a mixed bag, with countries such as Germany having a government debt of around 70% of GDP in 2015 and supposedly room for fiscal impulses. Given current views in Germany on the subject, as well as the EU debt constraint of 60% of GDP,

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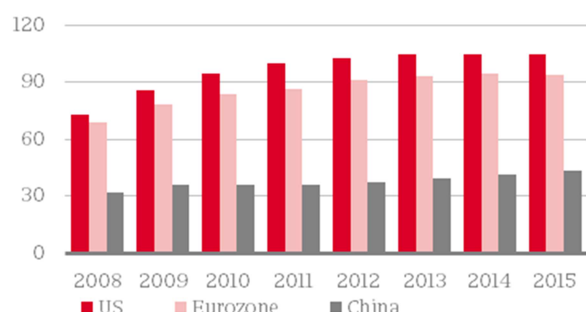
[19] We note an additional impact on consumption: as the interest is low, savings may go up to achieve a certain future income level.
[20] A way around this is to circumvent the banking system and provide citizens directly with money in their bank account, the so called 'helicopter money', but this is a bit of a long shot.

[21] This indeed assumes that the change in government expenditure is not (fully) compensated for by consumption or investment. Given the environment of low demand we are in this seems an acceptable assumption.

deleveraging is in the air. Fiscal policy therefore has had and still has limited teeth.

1.14 Government debt
Percent of GDP



Source: IMF WEO

Deleverage or what

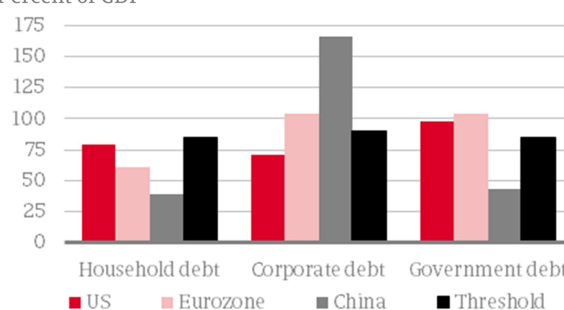
The IMF has recently stated that global growth is withheld by deleveraging.[22] This is supposed to put brakes on growth, simply because income is used to repay debt rather than for consumption. In our previous outlook, we have found no evidence of deleveraging for the economy *as a whole*, at least not at the time (November 2014). The question then is whether we can find evidence of deleveraging in the more recent data. The answer is: probably not.

We have argued that in order to get a full picture of the impact of debt on the economy, the total debt (as a percent of GDP) should be looked at. The Great Financial Crisis started with unsustainable private (household) debts, especially in the US. Following the crisis these were restructured and it looked as if deleveraging had occurred. But it had not on an economy-wide scale. Private debts were substituted by public debt, to the extent that total leverage in the economy even continued to grow. This happened in the US and eurozone. The process has only now more or less levelled off. In China, total leverage had gone up very rapidly and has reached a level of approximately 270% of GDP, markedly higher than the US or eurozone. Indeed, based on this metric, in the US, the eurozone, let alone China, deleveraging cannot be detected.[23] That was not the case in November 2014, and is not the case now.

Deleveraging, therefore, still has to start. To take a closer look at this question we should consider the current sector composition.[24] This is because there are several, and not uniform, thresholds that indicate debt levels above which deleveraging becomes desirable. For both government and household debt the threshold is 85% of GDP and for corporates, 90%.[25]. At levels above these thresholds, debt becomes simply too high and deleveraging will occur, sooner or later.

From recent household debt data, household debt looks relatively high in the US, but is currently below the threshold. No household deleveraging is required either in the eurozone or China, where the levels are notably lower. The picture is different for corporate debt, which is high – and above the threshold – in the eurozone, and arguably excessively high at 170% of GDP in China. Here leverage will come, sooner or later. For government debt, China is way below the threshold whereas government debts in the US and the eurozone are above. This suggests public deleveraging in the USA and the eurozone. The upshot is that there is debt overhang in the corporate sector in the eurozone and in particular China, as well as in the government sector in the US and the eurozone. That is where we can expect deleveraging, and where pressure on future growth, is to come from.

1.15 Sector debt and thresholds
Percent of GDP



Source: BIS

Meanwhile, the debt overhang in these countries, rather than actual deleveraging, can be expected to put pressure on current growth. As to corporate debt: standard finance theory tells us debt does not matter for firm decisions. But if debt is very high, firms abstain from investments if a large part of the returns will have to be used to pay off debt holders. Excessive debt in the government sector may require disturbing tax levy increases and (policy) uncertainty as to debt restructuring such as now is the

[22] The IMF regularly refers to debt overhang and weak balance sheets that weigh on growth, especially for the EZ. See e.g. Global prospects and policy challenges, G-20 Finance Ministers and Central bank Governors' Meetings, February 26-27, 2016.
[23] For this conclusion, see also Buttiglion, L., Lane, P.R., Reichlin, L. and Reinhart, V. Deleveraging? What Deleveraging?, International Centre for Monetary and Banking Studies, 2014.

[24] Indeed, for leverage the aggregate level of debt is important, for deleverage its composition.
[25] These thresholds come from Cechetti, S.G., Mohanty, M.S. and Zampolli, F., The real effects of debt, BIS working papers, 2011, We note the research on the level of these thresholds is inconclusive.

case in Greece. Via these channels current debt overhangs affect current growth.

2016 outlook and risks

Global economic growth is expected to slow slightly to 2.4% in 2016, largely driven by low commodity prices, weak trade growth, financial turbulence, limitations of monetary policy, inabilities to implement appropriate fiscal policy, and deleveraging. As a result, all global regions' 2016 GDP growth forecasts have been revised downward since the last Economic Outlook.

Table 1.1 Real GDP growth (%) – Major regions

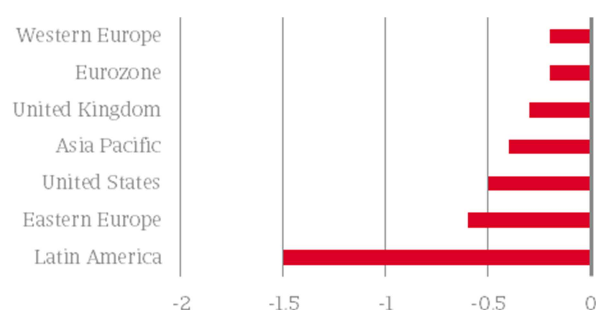
	2015	2016f	2017f
Eurozone	1.5	1.6	1.6
United States	2.4	1.8	2.3
Asia-Pacific (excl. Japan)	5.8	5.6	5.6
Latin America	-0.2	-0.6	2.0
Eastern Europe	0.2	1.2	2.3
Total	2.6	2.4	2.6

Source: Consensus Forecasts (May 2016)

With only Latin America contracting, all other regions are expected to see more or less flat growth. That implies that the common pattern of Asian growth leadership is forecast to remain unchanged by a wide margin, despite lower Chinese growth. Growth in the eurozone is consistently positive, but also consistently mediocre.

1.16 Change in 2016 GDP growth expectations

Difference between September 2015 and April 2016 forecasts



Sources: Consensus Economics, Atradius

By now, the downward revisions have largely taken account of the aforementioned issues, but further revisions of the 2016 and 2017 growth forecast cannot be excluded. Atradius identifies seven top global risks that may impact this figure.

Box 1: economics of the refugee crisis

The short-term economic impact of the refugee influx is most likely to be positive. Provided the government increases the deficit, the costs for board and living for the immigrants will contribute to GDP growth in the short run. But consumer confidence can fall, based on concerns related to job certainty, which has a negative impact according to research. Still on the positive side, with mostly young, productive immigrants, the solution for the problem of aging population can be contributed to. The long-term impact may then be beneficial. But there is a strong proviso. The immigrants should work, and that is not a given. Research shows that immigrants' labour participation is often low. Language issues play a role, as well as lack of recognition of degrees and professional qualifications, mental and physical health issues and discrimination. Such issues may also cause that, if employed, the income of immigrants is low. Active government policy, such as targeted job support programmes, to address these issues is therefore needed.

In our previous outlook we have discussed risks to the outlook: China's growth, the global monetary policy, emerging economies' corporate debt and geopolitics. These risks have clearly not gone within a timespan of a year. Still, on the basis of the above analysis we consider it accurate to slightly re-emphasise the risks. This leaves the following factors.

1. **Hard landing China:** If GDP growth in China goes below 5%, we consider that a hard landing. Landing hard would mean a reinforcement of the negative effects already seen on global trade and commodity prices. In addition, with the Chinese financial sector increasingly opening, local Chinese financial unrest may spread to the rest of the world, and affect financing conditions and flows (and in turn jeopardise highly leveraged firms in emerging economies).

2. **Misguided Fed monetary policy:** As has become evident in the first months of the year, the Fed policy guidance is critical for financial market stability. With the December rate hike almost universally agreed to, the projected pace for further steps was effectively rejected by the markets. The period of unrest that followed could only be redressed by a clear Fed retreat on hiking pace. This episode bodes ill for truly misguided, or even outright bad, Fed policy decisions. It will cause severe capital flow retractions away from the emerging economies, higher rates, depreciations and financing crunches.

Table 1.2 Risks to the global economic outlook

	Risk issue	Symptoms	Effects	Probability	Impact
1	China's hard landing	Slowdown of GDP growth <5%. Instable banking sector, credit constraints, significant capital outflow, devaluations.	Financial market volatility. Capital outflows from specific EMEs	low	high
2	Misguided Fed monetary policy	Financial market turbulence, reversal of capital flows from EMEs	Financing for firms in EMEs harder to obtain	low	high
3	Eurozone growth erosion	Further slowing of growth, despite expansionary ECB monetary policy. (Very) low inflation. Low bank lending. Possible Brexit	Stagnation across the eurozone	moderate	moderate
4	Rapid rise of oil price	Rapid rise of the oil price significantly above USD 50 per barrel Brent	Windfall for exporters; higher costs for importers. Overall net negative impact	moderate	moderate
5	Deleveraging taking off	Corporate and governments reduce leverage	Lower spending by governments and firms, pushing demand lower	moderate	moderate
6	EME corporate debt	Firms with high debt and currency mismatches faced with capital outflows, high interest rates and weakened domestic currencies	Increase in corporate defaults. Financial market volatility. Loss of confidence in EMEs	low-moderate	moderate
7	Geopolitics	Further surge of IS, Middle East uncertainty	Higher energy prices and high volatility	low	low

Source: Atradius Economic Research

3. **Eurozone growth recession:** Eurozone recovery has been supported by three tailwinds: a low oil price, a depreciated euro and very cheap borrowing conditions. These are expected to gradually reverse as the oil price climbs and the ECB monetary expansion is reduced. But monetary policy may turn out ineffective as the zero bound is reached and bank profits come under pressure. Banks could then again restrict lending to avoid further pressure on profits, now that some parts of the eurozone banking sector, notably the Italian, are still fragile. Tailwinds can thus become headwinds, bringing the eurozone back into recessionary conditions.
4. **Rapid oil price rise:** We expect the oil price to gradually rise to a level somewhat above USD 50 in 2020. This is the underlying trend, around which prices could fluctuate quite substantially. However, if the oil price rises rapidly to higher levels and remains there for a prolonged period, the impact will be felt. Essentially, the 'shot in the arm' of the lower oil price may then have to be rephrased by 'a shot in the leg' with reference to the lower global demand that is expected to be observed, like during the oil crisis in the early and late seventies.
5. **Deleveraging taking off:** We have drawn the picture of deleveraging hanging above the global economy. So far, such growth constraining effects have been (very) limited, but that may change, potentially triggered by deflation that further pushes up leverage ratios. The risk for deleveraging is cushioned by the fact that leverage ratios for households in all major economies are within the boundaries of the threshold values. Still, US and eurozone governments as well as Chinese firms are expected to start the process one day.
6. **Emerging economies' corporate debt:** The current risk of a crisis in the emerging economies emanating from corporate debt levels and currency mismatches is not to be considered systemic. It may lead to a high level of corporate defaults, but on a macro level the risk is expected to be contained. This may change if capital flows, exchange rates and interest rate move sharply in the wrong directions, in conjunction with a further decline in commodity prices. Firms in emerging economies, active in commodity production, and highly leveraged in foreign currencies with insufficient capital may then waver. This could trigger fear and a sharp reaction in the financial markets, creating a vicious circle as well as a lack of confidence in the emerging economies.
7. **Geopolitical risk:** With the situation in Eastern Ukraine looking like a frozen conflict, the situation in Syria has taken a change since the Russian intervention. Fighting has intensified. The situation is compounded by the self-declared Islamic State being forced to move backward, a move that coincides with stepped-up terrorist attacks in Europe. The security situation in Europe, and particularly France and Belgium, has taken a change for the worse. Meanwhile, the refugee flows from the Middle East towards Europe, largely because of the Syrian crisis, have taken an unprecedented shape. More than a million people have fled the Middle East in 2015 alone. While this poses a threat to European unity, providing a flow to anti-immigrant political parties, the long-term economic impact of this flow need not be negative.

2. Advanced economies – prospects and risks

Table 2.1 Real GDP growth (%) – Major markets

	2015	2016f	2017f
Eurozone	1.5	1.6	1.6
United States	2.4	1.8	2.3
United Kingdom	2.3	1.9	2.2
Japan	0.5	0.5	0.5

Source: Consensus Forecasts (May 2016)

Recoveries continue but fragility remains

After a period of strong emerging market growth and weak recovery in developed markets since the global financial crisis, advanced markets finally got 'back in the driver's seat' last year. However, an increasingly difficult global environment has brought a deterioration in the economic outlook in 2016 for all major advanced markets.

The eurozone economy is forecast to grow at a moderate 1.6%. Confidence in the recovery has weakened as inflation remains low and bank lending remains muted, fuelling doubts about the effectiveness of non-conventional monetary policy.

The United States and the United Kingdom will see a slowdown in economic growth below 2.0% this year. Strong domestic currencies and slowdowns in major emerging market economies have driven a fall in demand for UK and US exports, which alongside rising financial volatility is weighing on growth in both markets. Policymaking in Japan continues to miss the mark and the country's economy will see another disappointing year with only 0.5% growth forecast.

Eurozone: searching for momentum

Late last year, it appeared clear that the eurozone recovery was finally finding firm footing. Unfortunately, external developments since then have highlighted the persistent fragility of the area's economy. It is very clear that there are unresolved structural issues that are holding back a robust and sustainable recovery. Export dependence, banking sector weakness, and debt overhang will hurt economic growth in 2016.

In 2015, the eurozone economy finally began 'awakening'. GDP growth accelerated from 0.9% in 2014 to 1.5%, boosted by rising international demand. On the domestic front, the improving labour market, low oil prices and ultra-loose monetary policy contributed to domestic demand. But it appears that the euro area's economic recovery still has not found its footing after all.

A major contributor to economic growth in the eurozone has been a rebalancing to exports. As consumption and investment grew only moderately within the eurozone, rising international demand became the best option for many countries, in the core and periphery. A weak euro, spurred by ECB activity, helped boost eurozone exports over the past two years, further aided by rising international demand, especially in emerging markets and increasingly in the US and UK. While helping the economic recovery accelerate in the past couple years, this is now proving to be a vulnerability. Since April 2015, the euro has appreciated more than 7% on a trade-weighted basis. The economic situation in emerging markets has deteriorated and the outlook for the US and UK has become more uncertain. Germany (1.3%) and the Netherlands (1.5%) will see a loss of momentum due to softening demand growth in major export markets and the subsequent deterioration of domestic sentiment. Austria (1.3%), Belgium (1.3%) and France (1.3%) also face the same challenges, on top of their recoveries being anaemic. Italy should see a growth pick-up to 1.1% this year but also faces rising downside risks related to global developments.

Largely resulting from the prolonged, subdued economic recovery, political uncertainty is elevated in 2016 across the euro area. Political stalemates in Spain (2.7%) and Ireland (4.9%) after inconclusive elections have left the countries without clear governments, weighing on hitherto still impressive growth. Political uncertainty is also keeping Portugal's (1.3%) outlook subdued. In Greece (-1%), debt-relief negotiations have stalled.

Table 2.2 Real GDP growth (%) – Major eurozone markets

	2015	2016f	2017f
Austria	0.9	1.3	1.5
Belgium	1.4	1.3	1.6
France	1.2	1.3	1.5
Germany	1.7	1.6	1.5
Greece	-0.2	-1.0	1.2
Ireland	7.8	4.9	3.7
Italy	0.8	1.1	1.2
Netherlands	2.0	1.5	1.7
Portugal	1.5	1.3	1.6
Spain	3.2	2.7	2.3

Source: Consensus Economics (May 2016)

The refugee crisis is still unresolved and it is unknown what the effect of the recent agreement with Turkey will be on the flux of refugees. Recent terrorist attacks have also increased fears of security risk and may weigh on consumer confidence. The UK referendum on EU membership also raises political uncertainty and will negatively impact the continent's economy should an 'out' vote be the outcome (refer to Box 2). Popular dissatisfaction with the European Union is feeding the rise of political uncertainty in a number of countries in the euro area. In a (non-binding) referendum on the EU-Ukraine association agreement, the Dutch population voted 'no', adding momentum for eurosceptics.

Eurozone banks still not recovered

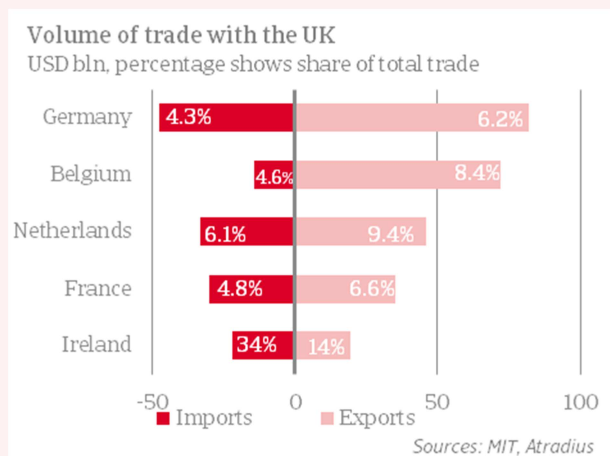
The banking sector of the euro area is in a much better position today than it was in 2008. Systemic risk and the risk of another taxpayer bailout are both much lower. Buffers have increased and banks can now cancel debt to bondholders in order to protect depositors. However, eurozone banks continue to suffer long-standing legacy issues: excess capacity, high NPLs, and poorly adapted business models. The latest episodes of plunging bank equity prices in late 2015 and early 2016 highlight long-standing structural problems (excess bank capacity and non-performing loans).

Low inflation and low growth reduce loan demand and thus the outlook for future bank profit. Expected earnings have been flat since summer 2012 and are one-fifth of what they were in October 2007. Bank valuations have been pushed down with weak earnings results from some banks further weakening sentiment. Negative deposit rates mean that regional banks must pay to hold funds with the ECB. Until this point though, banks have refused to pass this fee onto customers, further squeezing profit margins. Banks in Greece and Italy are performing especially poorly, and to a lesser extent Portuguese banks as well. Even some big banks in Germany are facing difficulties.

Box 2: impact of Brexit on eurozone

On 23 June, a referendum will be held in the UK on EU membership. While a Brexit is not the Atradius main scenario, polls suggest a very close call. Therefore, it is an important risk to consider.

A Brexit will also undoubtedly have effects on the eurozone. The trade and investment ties between the UK and the EU are so large that any disruption would have negative economic consequences. While those effects would likely hurt the UK's GDP more (for more details, see section on UK), it would also weigh on eurozone GDP since it counts the UK as its largest trading partner. Therefore, the effects on the eurozone are largely contingent upon the trade arrangement that the EU sets with the independent UK.



The most vulnerable eurozone member-states are:

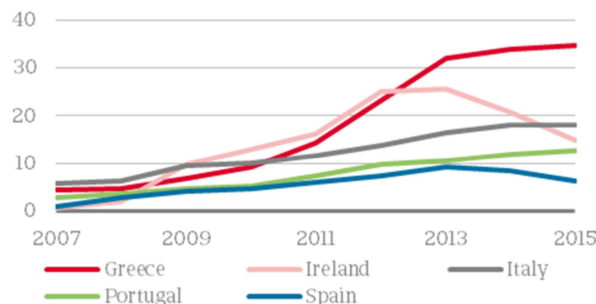
Ireland: most vulnerable. Ireland is dependent on the UK for 14% of exports and 34% of imports. It could also reignite tensions and new costs as the customs border between the Republic of Ireland and Northern Ireland would likely be reinstated.
Netherlands: second largest trading partner in terms of exports and imports. They also have very deep investment ties.
Germany: largest trade partner in EU by volume, which would particularly hurt Germany's automotive sector. However, the share of total trade is not very large so Germany is not reliant on this.

The potentially greater threat to the eurozone is the risk aversion and uncertainty that may drive further financial volatility in the aftermath and negotiation process – which could last up to two years – following the Brexit vote. Contagion may also lie in politics, as euro scepticism would gain momentum. This would drive further political fragmentation in both the core and periphery and could further stall the process of much-needed reforms. The impact on the rest of the EU (total, not eurozone only) will be modest with a worst case scenario indicating 0.2% loss. Within the EU, Ireland will be most affected: 2.2% loss of GDP in a worst case scenario.

As of end-June 2015, eurozone banks as a whole have EUR 900 billion worth of non-performing loans, more than 9% of the region's GDP. NPLs are concentrated in the corporate sectors of particularly southern countries like Cyprus, Greece, Italy and Portugal. NPLs remain so high for many reasons, identified in an IMF survey in a recent discussion note, including insufficient supervision; ineffective insolvency frameworks lowering the recovery values of NPLs; and an underdeveloped European market for distressed debt.[26]

Banks with higher levels of non-performing loans (NPLs) tend to have weaker capital buffers and higher funding costs, motivating them to lend less. Unlike banks in the United States and despite negative interest rates, euro area banks are not expanding lending. The protracted recovery led to contractions in credit to the private sector from mid-2011 to mid-2014, but the recovery since then has been feeble. Credit conditions on loans to the private sector have however continued to ease across the majority of eurozone countries.[27]

2.1 Eurozone: non-performing loans
Percent share of total loans



Source: IMF

[26] IMF, September 2015. IMF Staff Discussion Note: A Strategy for Resolving Europe's Problem Loans.

[27] ECB Bank Lending Survey 2016Q1.

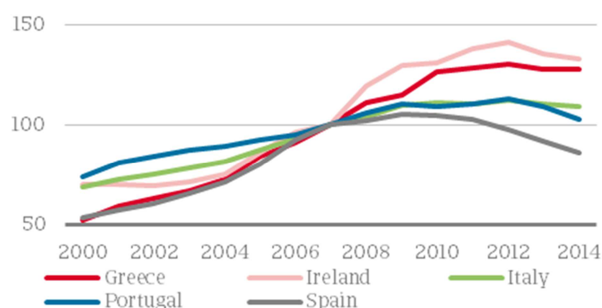
The high level of NPLs, on top of stricter capital requirements, force banks to save more capital. This restrains lending growth, reducing profitability and raising funding costs. As a result, credit growth in the euro area remains anaemic, holding back economic growth. The inability to significantly increase lending due to these inefficiencies also reduces the effectiveness of monetary policy, partially explaining why the eurozone's economy still fails to see a meaningful acceleration in inflation or growth.

Legacy of crisis still clouds the eurozone outlook

Another crisis legacy that continues to hold back the eurozone's economy is high debt levels. Alongside stubbornly high levels of non-performing loans and weak bank profitability, the eurozone is struggling with a vicious debt cycle that weighs on credit growth. High levels of public debt, increasing financial volatility, and private deleveraging are working together to constrain domestic demand, keep credit conditions limited, and hold back overall growth.

Public debt has exploded in many peripheral (as well as core) countries since the late 2000s, but five years later, only Ireland has managed to begin reining in the debt. All countries have seen a meaningful decline in budget deficits (though most remain negative) but they have not helped bring down debt levels. This is due to very low nominal GDP growth since the beginning of the crisis. Economic growth has been subdued, and when taking very low inflation and even deflation recently into account, it is negative. In this environment, it is impossible to 'grow' or 'inflate' away much debt.

2.2 Eurozone periphery: private sector debt
Index, 2007 = 100



Sources: Eurostat, Atradius

Debt in the private sector had also seen a rapid build-up leading up to the global crisis. By 2012, private debt had more than doubled from its 2000 levels. The pace of accumulation has slowed in recent years as the private deleveraging cycle has begun taking off, but levels remain very high, well in excess of 100% of GDP in nearly all euro area countries (except for Latvia, Lithuania, and Slovakia). While the level and composition of debt differs between countries, it is most concentrated in the non-financial corporate sector. Especially in the periphery, high indebtedness, low profitability and dependence on bank funding has driven a rise in insolvencies, particularly in small- and medium-sized enterprises.

Mediocre eurozone economic growth is partly due to this debt overhang. High debt levels and the subsequent loss of confidence have made it difficult for the highly leveraged organisation (household, corporate, government) to borrow money, even if the money would be spent on a good investment. The eurozone has not benefitted from strong growth or inflation to help macroeconomic deleveraging, and the debt overhang has weakened investment and spending. Instead, a long drawn-out balance sheet deleveraging has been underway also contracting credit.

In this environment, monetary policy – both conventional and unconventional – has lost some of its effectiveness. Weak and unprofitable banks alongside a deleveraging private sector have led to a contraction in credit and a rise in savings despite near zero (or below zero for deposits) interest rates. ECB policy has thus far failed to alleviate this situation and it appears to be a self-reinforcing cycle, a liquidity trap.

As discussed in Chapter 1, the European Central Bank (ECB) shot its last big bullet in the March 2016 policy meeting. The scope of this policy surprised markets and interest rates are now expected to remain at current levels, or even lower, well into 2018 at least. However, it will likely not be enough as the marginal efficacy of unconventional monetary policy appears to be declining.

It appears increasingly more important for governments to use expansionary fiscal policy in tandem with loose monetary policy to progress. However, most eurozone countries do not have the political will to spend more or are restrained by the -3% of GDP limit to an annual deficit set in European treaty. Many countries therefore remain stuck with high unemployment, weak demand, high debt and rising NPLs. With that, the eurozone remains very fragile to shocks in the financial and banking sectors.

The rebalancing toward exports also creates a new, larger vulnerability to external developments. In the current, increasingly polarised political environment, decisive policies to improve fiscal policy and help deleveraging are less likely. We therefore expect another year of low growth and inflation.

United States: walking the tightrope

The recovery in the United States is turning into a balancing act between strong domestic fundamentals on the one hand and headwinds from overseas and financial markets on the other. The labour market has posted consistent improvements and consumers continue to spend. However, as made clear by the Federal Reserve's increasingly dovish stance, the grimmer global outlook and uncertainty surrounding the effects on the US economy are causing growth forecasts to decrease. The US economy is now forecast to expand only 1.8% in 2016.

USD continues to weigh on growth

Foreign trade has been a drag on the US economic recovery for the past two years. Since summer 2014 the USD has appreciated nearly 20% in trade-weighted terms. This has made American exports more expensive for foreign buyers at a time when weak growth conditions abroad have already reduced demand. As a result, the pace of export growth has been falling ever since its sharp recovery from the 2008-2009 global crisis. Since 2015, exports have even been contracting.

2.3 US trade: USD vs. export growth

Trade-weighted exchange rate

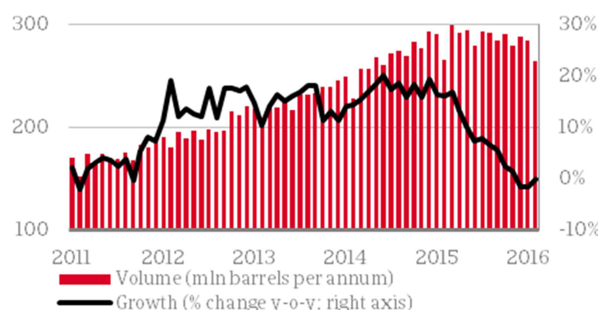
Source: FRED

Due to the strong USD, American consumers have higher purchasing power for foreign goods, increasing imports and crowding out some domestic competitors. Combined, net exports are expected to knock an entire percentage point off of GDP growth this year, according to the Federal Reserve Governor, Lael Brainard. In 2016, so far, it appears the dollar has stopped its rise as monetary policy divergence is no longer an issue. But the damage to the manufacturing sector in particular as well as agricultural exporters will continue to struggle, keeping growth below potential.

Bankruptcies rising in cash-strapped oil sector

The shale revolution made the United States an energy powerhouse again – crude oil production increased 75% between March 2010 and March 2015. Lower oil prices since 2014 however have put the brakes on this boom. Since October 2014, the number of oil rigs in operation has collapsed and shale production became no longer profitable. Today, there are less than 1/4 of oil rigs than the peak of 1593 rigs in October 2014. Remarkably, US oil production has only experienced its first year-on-year contraction in December 2015 since the boom began.

2.4 US crude oil production



Sources: IHS, Atradius

The American oil and gas sector has made large productivity gains over the past year that account for the stability in production. More wells can be drilled each month with fewer rigs while the average well length has doubled and other innovations have made fracking more efficient, allowing for more extraction from each well. The break-even price for US oil producers has also decreased significantly over the past years. The Federal Reserve Bank of Kansas City's latest quarterly Energy Survey points to a median of USD 60 a barrel, USD 19 lower than in Q4 of 2014. But this remains well above the current market price of around USD 40 per barrel.

As a result, the outlook for the sector is poor and highly uncertain. The loss of profits has forced many firms, accounting for slightly over one percent of total production, to file for bankruptcy. Many firms are highly leveraged, having taken on a lot of debt during the boom of the past decade which has helped fuel the rapid productivity growth. However, access to funds from banks is drying up as well as access to capital markets. In this environment, with oil prices expected to end the year at only USD 35 per barrel, bankruptcies will continue to rise in the oil and gas sector. Supply will stay high though, with the EIA forecasting production of shale oil to contract only 7% in 2016.

Labour market is a bright spot

The labour market in the United States has continued its tightening spree in spite of the lower oil investment,

market turbulence, and the strong dollar. The labour market has seen positive developments through this year, with steady job growth alongside low unemployment, in line with pre-Great Recession levels. In fact, unemployment ticked up 0.1 percentage points to 5.0% in March 2016, indicating that the recovery is finally pushing up labour force participation.

2.5 US labour market

Unemployment vs. participation rate, percent

Sources: BLS, FRED

After reaching a nearly four decade low of 62% in September 2015, the proportion of working-age Americans that are economically active has risen each month since then to 63% as of March 2016. The gradual rebound of the participation rate is further evidence of the US labour market becoming more robust, as it outweighs downward forces such as the retirement of the baby boomer generation.

As the labour market approaches full employment and the participation rate continues its trend of the last five months, wage growth is increasingly central to assessing the health of the US labour market and economy. Average hourly wages, the most closely watched indicator, rose 2.3% year-on-year in real terms in March 2016, surpassing expectations. Improvements in wage growth suggest that momentum is growing in the economy.

Household deleveraging dominates

While private consumption comprises nearly 70% of American GDP and has proven the most important engine of the recovery, it still is not very strong by historical standards. This is largely the reason that less-than-3% growth is now the new normal of the US economy.

Wage growth has been mediocre from 2009 up until recently and a large share of job gains have been in low-wage industries or part time jobs. Households have also been deleveraging since the onset of the crisis. Instead of spending the higher income (from low oil prices, low interest rates, low inflation and a strong dollar) on consumption, Americans have been using it to repay debt. The personal savings rate has remained steady at 5% since the beginning of 2014. Household debt as a share of GDP has fallen from nearly 100% of GDP in 2007 to 78% in 2015.

2.6 US household deleveraging

Deleveraging vs. consumption expenditures

Source: FRED

Following the burst of a large debt bubble and the drawdown of household debt, demand for credit has been low since the desire to spend and invest has not recovered. Despite the effective federal funds rate hovering close to zero since early 2009, lending growth to households has remained subdued. In 2015, household borrowing from banks rose only 2.1% compared to 12% prior to 2007. This suggests that in an environment of deleveraging, the use of monetary policy alone cannot carry the recovery.

While a repeat of the credit boom is not desired, the deleveraging cycle and failure of a strong big picture to translate into real economic benefits for many working-class Americans is weighing on growth. Combined with a higher proportion of debt in lower income households and rising income inequality, frustrations with the status quo have risen. The 2016 presidential elections have demonstrated this, as more populist, non-mainstream candidates have gained wide support in both the Democratic and Republican parties.

The economic outlook for the United States is still one of the strongest across advanced markets. Growth is expected to stay steady above 2% and the decreasing labour market slack may finally encourage American consumers to spend. Signs of firming wage and price pressures also indicate a strong US economy. Risks from abroad however and the slow recovery mean that the monetary policy will remain accommodative for a while. A gradual, well-communicated normalisation policy is expected.

United Kingdom: uncertainty rises

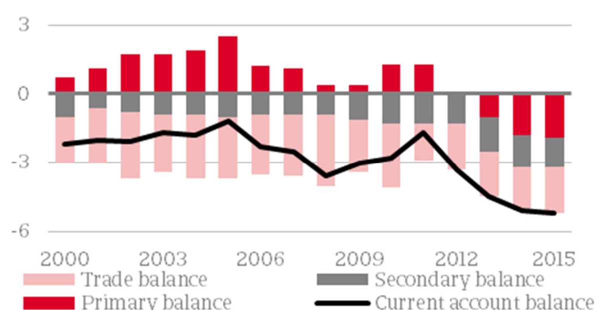
Domestic demand growth remains strong in the UK, aided in part by low oil prices. Headwinds to GDP growth have risen through the year as the strong pound and weak external demand have hurt exporters, particularly manufacturing activity. The outlook for 2016 has thus deteriorated. Rising uncertainties related to external developments as well as the June 2016 referendum on the UK's membership in the European Union are also weighing on the growth outlook. GDP is forecast to expand only 1.9% in 2016 with the outcome of the referendum being a clear downside risk.

As discussed in Box 2, a Brexit would have a negative impact on the eurozone, but even more markedly on the UK economy. In the months of EU negotiations on its potential new relationship with the UK, uncertainty would cause UK firms to postpone investments. Then depending on the trade deal struck, the UK's GDP may be significantly damaged – with the impact increasing with the number of impediments there are to trade and investment between the two economies. A best case scenario would imply only limited damage to GDP, a worst case scenario would imply a long term GDP loss of 4% over time.[28]

Surging current account deficit...

The UK's current account deficit has widened to a record high level: -5.2% of GDP in 2015. The UK has a structural current account deficit and has not seen an annual surplus since 1983. The deficit has widened markedly since 2011, for a number of reasons.

2.7 UK current account balance evolution
Current account balance and its components, percent of GDP



Source: ONS

For one: domestic demand. The consumer has underpinned the UK recovery from the global financial crisis. The savings ratio rose rapidly during the recession, with households saving 12% of their disposable incomes in Q3 of 2010. Since then, savings have fallen to an all-time low of 3.8% in Q4 of 2015. This encourages spending which has also increased import demand. Imports have risen at a time that exports have contracted. The strong pound has added to both these effects. The trade balance has however remained relatively stable over the past few years, around -2% of GDP.

A second reason for the record current account deficit is the change in the primary balance. Over the past three years, the primary income has turned to a deficit of -2% of GDP. This is due to declining earnings from overseas investments for UK residents. The majority of the decline in FDI credits, according to the Office for National Statistics, is a deterioration in the performance of UK-based multinational corporations. It is also a result of weaker global commodity prices since a large share of UK FDI assets are in crude oil.[29]

...could be a vulnerability amidst Brexit uncertainty

In the words of Mark Carney, the Governor of the Bank of England, the massive current account deficit means that the UK is "dependent on the kindness of strangers." The IMF has also flagged the high deficit as a vulnerability in 2016.

The UK is the largest net recipient of foreign direct investment in the EU, thanks to large financial services and automobile industries and access to the single market. These inflows are needed to finance the external deficit but for such a stable economy as the UK, this has not been a problem in many decades. But should investor sentiment reverse and international investors grow more averse to the UK, the size and expansion of the current account deficit could be a real vulnerability.

Thus far, there have not been many jitters in the markets regarding the deficit, however prolonged uncertainty over Britain's relationship with the EU, in the case of Brexit, may be a catalyst. The risk is that should investor confidence deteriorate, risk aversion will lead to higher rates for money lent to the UK which would drive a fall in the pound and UK assets.

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[28] See 'Assessing the economic implications of Brexit', Oxford Economics, April 2016.

[29] UK Office for National Statistics, 31 March 2016. "An analysis of the drivers behind the fall in direct investment earnings and their impact on the UK's current account deficit."

2.8 UK effective exchange rate
Index, Jan 2005 = 100

Source: Bank of England

Up until now, there have been signs of rising uncertainty regarding the referendum. The pound has depreciated more than 10% since November last year in trade-weighted terms. Investment also fell 2% in the last three months of 2015 as companies started putting projects on hold before the vote. A vote to leave the EU would result in a prolonged period of negotiations with the European Union on the subsequent bilateral relationship which would stir even more uncertainty, weighing further on confidence and investment and increasing financial market volatility. In a worst case scenario, business investment in the UK could fall GBP 21.1 billion.[30]

Should the UK vote to remain in the EU, our baseline scenario, the current account deficit will likely not become a real problem. More than 80% of net capital inflows is FDI, meaning it is long-term and stable. So the UK is not so much at risk as other mostly emerging economies that have a higher share of portfolio investment, or 'hot money'. The current account deficit is forecast to narrow slightly in 2016 as well, to -4.2% of GDP. However, the sterling will likely weaken further and investment growth will remain suppressed in the lead-up to the referendum in June. Should Britons vote to leave, the deficit may prove to be a large risk.

Japan: external weakening

GDP growth is forecast to stay flat at 0.5% this year and next in Japan. Growth will be sustained by lower energy prices and fiscal stimulus but the outlook has certainly become more challenging.

Abenomics – the three-arrowed monetary, fiscal, and structural reform policy to revive the Japanese economy – continues to disappoint. Growth remains subdued and inflation is still in the doldrums: fluctuating between zero and 0.3% since last summer. In January 2016, the authorities took another shot, announcing negative interest rates to supplement its quantitative easing programme.

The policy is not having the intended effects though. Since Q2 of 2015, the yen has been strengthening, gathering pace in early 2016. This has been largely due to its status as a safe haven for investors amidst financial market volatility. Instead of stemming the appreciation, the yen has gained 10% versus the US dollar since the announcement.

The stronger yen will make 2016 even more difficult for Japan. Even with a weaker exchange rate, Japanese exports have failed to grow meaningfully. The World Bank and IMF suggest this may be due to the nature of modern supply chains: the improved price competitiveness of Japanese exports with a weaker yen are cancelled out by the relative increase in imported capital goods.[31] A strong exchange rate will further suppress Japanese exports. It will also weaken import price inflation. Global oil prices are expected to remain low as well. Inflation is now forecast at -0.2% in 2016. Consumption remains mediocre as consumers forego current consumption in the hopes of paying less in the future, an effect of Japan's long bouts of deflation.

[30] Oxford Economics, 2016. "Assessing the Economic Implications of Brexit."

[31] The Economist, 9 January 2016. "After the dips: big currency devaluations are not boosting exports as much as they used to".

3. Emerging economies – prospects and risks

Table 3.1 Real GDP growth (%) – Emerging market regions

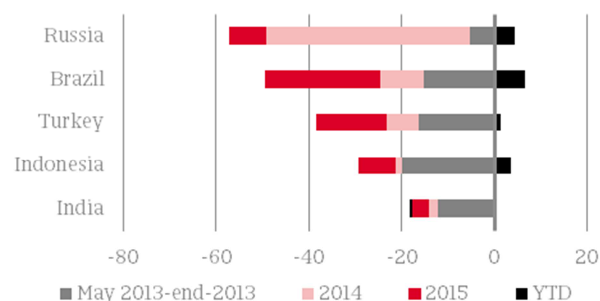
	2015	2016f	2017f
Asia-Pacific (excl. Japan)	5.8	5.6	5.6
Eastern Europe	0.2	1.2	2.3
Latin America	-0.2	-0.6	2.0
MENA	2.3	2.9	3.3
Sub-Saharan Africa	3.4	3.0	4.0

Sources: Consensus Economics, IMF WEO

Slower and more uncertain

Growth in emerging market economies (EMEs) is forecast to decelerate to 4.0%, the slowest pace since the global financial crisis. This is driven primarily by low commodity prices, uncertainty regarding the pace of US monetary policy normalisation, and (geo)political tensions. Financial conditions have tightened, resulting in net capital outflows and currency depreciation. Commodity exporting countries in particular have seen their currencies depreciate sharply. Although a currency depreciation can act as a shock absorber it can also aggravate external vulnerabilities. Particularly India, Indonesia, Turkey, Russia and Brazil are vulnerable to currency depreciation as the corporate sector is highly indebted.

3.1 Exchange rates vis-à-vis USD
Percent change, negative values indicate depreciation



Source: IHS

With the exception of India, the largest emerging markets will perform less well in 2016. China is gradually rebalancing towards a more consumption-driven economy resulting in an economic slowdown and weaker import demand. Lower demand from China in combination with oversupply resulted in declining commodity prices, affecting economies in the region and commodity exporting countries elsewhere. Not only were Brazil, Russia and South Africa hit by lower commodity prices, but also by the difficult political environment and corruption scandals.

Despite the economic slowdown in emerging markets they remain the engine of global growth, led by Asia. Growth is expected to pick up somewhat over the outlook period, but to remain overall modest while prospects across countries remain uneven and uncertainty unusually high. EMEs in general are better able to cope with these pressures compared to previous periods of stress, given much improved policy regimes and macroeconomic fundamentals, increased use of flexible exchange rate regimes, lower external debt and higher buffers. But the environment remains challenging, particularly for entities with high external debts and/or low buffers.

Emerging Asia: still going strong

China, by far the largest economy of Asia, is seen as one of the main causes for a still struggling world economy. Still, emerging Asia is contributing more to global GDP growth than other regions. This paradox will continue this year and in 2017 as well.

Table 3.2 Real GDP growth (%) – Asia

	2015	2016f	2017f
China	6.9	6.5	6.3
Hong Kong	2.4	1.7	1.9
India	7.5	7.6	7.7
Indonesia	4.8	5.0	5.3
Singapore	2.0	1.7	2.2
Taiwan	0.7	1.3	2.1

Source: Consensus Economics (May 2016)

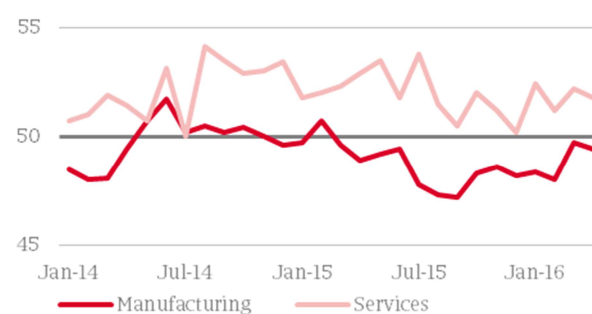
China: finding the right balance

A hard landing of the Chinese economy is still mentioned by economists when asked about the major risks to growth prospects for the world economy – it also tops our list of risks ranked in Table 1.2. The probability of GDP growth slowing to 5% per annum or less in the next two years is low, but the impact of it would be large. And this impact would not only affect China and its trading partners, but the world economy as a whole as well.

Maybe reassuring is that since last summer, the probability of a hard landing of the Chinese economy has eased. Macroeconomic data improved, of which the rise of the forward-looking purchasing managers indices was good news. The PMI for both manufacturing and services rose, though the prospects for manufacturing still are mediocre. Positive figures for coincidental indicators like industrial production, retail sales and exports were also reason to expect that a hard landing is not imminent.

3.2 China purchasing managers' indices

Index, 50 = neutral



Sources: Markit Economics, Caixin

Even the real estate sector showed signs of a recovery with rising housing sales and prices. Together with strong government spending for infrastructure, this helped the construction sector. The stronger data about the real economy showed up in a modest recovery of the yuan against the US dollar and some gains on the equity market after the steep price declines last year. Also, capital outflows slowed in February and reserves could stabilise.

At the moment, fiscal and monetary stimuli seem to be enough to realise a gradual slowdown of the Chinese economy. Real GDP growth was 6.7% y-o-y in the first quarter, which is not much lower than the 6.9% growth in 2015. For this year the consensus forecast is an increase of 6.5%, which is realistic, but the 6.3% expected for 2017 may be too optimistic, because investments, especially related to the housing sector, will slow down. This scenario still can be described as a soft landing, though it is well below the government's minimum target of 6.5%. More important to mention, however, is that the risks are on the downside.

The first risk factor is the increase of already high debt levels in China. As mentioned in Chapter 1, overall leverage has gone up to about 270% of GDP, a level which is higher than in the US or EU. Until the global financial crisis started in 2008, the debt levels in China were much lower (total debt excluding financials was about 145% of GDP), but the authorities decided to fight the trend of slowing economic growth by leveraging up. Investment in previous years was mostly concentrated in manufacturing and other export-oriented sectors. The credit boom in the years after 2008 was concentrated on housing and

infrastructure. In combination with slowing growth of nominal GDP (from 14% per annum in 2008 to about 8.5% in 2015), the high leverage is dangerous, especially because the debt is concentrated at local governments, which have fragile income streams, and companies in sectors which struggle with overcapacity.

Credit growth is high, whereas private debt is already very high. Private non-financial debt is at about 200% of GDP, a level at which in the past in several countries a crisis broke out, like Japan in the early nineties and Spain eight years ago. In the US, the subprime crisis started when private debt was at about 170% of GDP.

The Chinese government is willing to start a process of deleveraging, and probably is able to accommodate this. The government has, with a debt of just 23% of GDP for the central government and about twice that number including lower authorities, enough room to avoid a systemic crisis if needed, for example by buying out troubled entities. However, a combination of bailouts and losses for shareholders still has a negative impact on economic growth and could reinforce the growth slowdown. It is therefore that raising productivity by economic reforms is necessary to compensate for the needed deleveraging.

Here a second risk comes up, the political situation which impedes the economy in becoming more efficient and productive. President Xi Jinping has centralised power and is backing authoritarian policies and controls over civil society. The political dominance of the Communist Party, which Xi is preserving, ensures stability, but has a negative impact on the quality of policymaking. Institutional development and reforms go slow. The governmental controls over the educational system, non-governmental organisations and the media leads is detrimental for social development. The Communist Party wants to reduce direct government control over the economy and make market forces more decisive in the allocation of resources. But bureaucracy and unwillingness of lower governments is large. The result is that the needed reduction of overcapacity in low-end and inefficient industries goes slow.

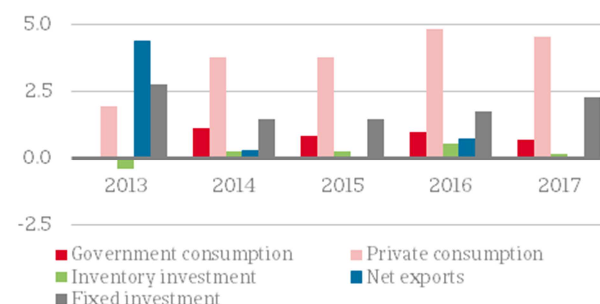
A positive development is the shift from a de facto crawling peg versus the US dollar to a managed exchange rate against a basket of currencies. This shift was a cause for uncertainty in financial markets last summer, due to poor communication. The rationale behind it, however, was good, because it is a step towards a free-floated currency. In the future, a gradual depreciation of the currency can help to alleviate the consequences of deleveraging as it will support inflation.

In sum, for the coming years, we consider the probability of a hard landing to be low, whereas the government is able to keep growth at or near the targeted level. It will probably reach its growth target of 6.5% to 7% this year by a higher budget deficit and faster credit growth and also for the years thereafter a soft landing still is possible. But there is a risk that in the longer term the government will not be able to find the right balance in deleveraging lower governments and companies, and in the meantime keeping growth at a reasonable level by raising productivity growth.

India: high growth, not without risks

India's economy is doing well and the prospects for the near future are also positive. This year, real GDP is forecast to increase 7.6%, followed by 7.7% in 2017. The economy benefits from a stable political situation with a reform-oriented government, low commodity prices and a large inflow of foreign direct investments.

3.3 India: GDP breakdown
Contribution to GDP, annual %



Source: IHS

GDP growth is broad-based, with private consumption and business investment contributing most to growth. In 2017, this will continue with 7% growth forecast for each. Exports are also forecast to grow at this rate but high imports meaning the net impact on growth will be neutral. Slowing growth in China had an impact on exports last year, but because exports account for only 19% of GDP and China is the destination of a mere 4% of total exports, the consequences for GDP growth were modest. With rising growth in the US and Europe, export growth can rise as brisk as it did before 2014, marked by the sharp positive contribution of net exports on growth in 2013.

But dangers lurk: in recent years the economy has been greatly aided by the fall in commodity prices because India is a net importer of energy and materials. If their prices, in line with forecasts, rise again, this support for growth falls away.

The biggest risk for economic growth prospects, however, is an internal one. Since he came to power in 2014, Prime Minister Narendra Modi has tried to strengthen the economy and enhance its growth potential. By pursuing reforms, the government wants to improve infrastructure, fight corruption, reduce bureaucracy and encourage

foreign investment. Together with the central bank, it wants to bring back inflation. Successes were there, but progress is slow. The government is supported by a solid majority in the Lower House of parliament, but because it lacks a majority in the Upper House, not all reforms are implemented quickly. The next parliamentary elections are not until 2019, but regional elections in the next couple of years mean that the government should guard against loss of popularity among voters.

India needs these reforms also to safeguard the inflow of foreign capital, which the country needs to finance its investments. Domestic savings are high, but the interest rate to be paid by companies for bank loans is high as well. The central bank sticks to tight monetary policy because inflation is still high, despite a decline in recent years. Companies therefore looked to foreign countries where the lenders charge lower interest rates. This massive external borrowing, however, led to a rise of external debt at Indian businesses. The resulting high debt-to-equity ratio makes businesses – and therefore banks and the economy – vulnerable to shocks such as a sharp fall in the rupee, rising interest rates abroad or worsening earnings performance of the companies involved. If the volatile oil price rises faster than expected or economic growth in the US or Europe turns out better than many predict now, interest rates can rise quickly.

The Indian rupee, in recent years, depreciated much less against the dollar and the euro than the currencies of most other emerging economies, partly because of high confidence in the economic policies of the new government. But if the reforms are not implemented fast enough, this trust can easily be lost again. The inflow of foreign direct investments and portfolio investments, which must support the economy and the rupee, might then well diminish. And if the rupee is worth less against the currencies in which the money is borrowed, the debt obligations of companies will increase as well.

Growth prospects for the Indian economy are good, and Modi's reform-oriented policy helps to improve the still difficult business climate. But as long as this process goes slow, external debt at companies is a risk factor.

Southeast Asia: showing resilience

Like India, Southeast Asia is not hurt by China's growth slowdown as much as would be based on its proximity to China. In general, export growth has slowed, but domestic demand held up. The economic growth prospects for the next two years are also reasonably good.

In Indonesia, real GDP growth slowed last year to 4.8%, but is expected to rise to 5% this year and 5.3% in 2017. The main contribution will come from private consumption, which is helped by a stabilisation in inflation, rising employment and looser monetary conditions. Investment activity probably will show a lower growth rate, mainly because the government is not able to speed up reforms, such as removing protectionist trade and investment policies. The current account will remain in deficit, though it can narrow a bit in the coming years. Manufacturing exports will increase, but interest payments on foreign debt will increase along with rising bond yields. The currency, which fell sharply last year due to the growth slowdown in China and falling commodity prices, will stay under pressure this year. Next year the currency is expected to stabilise, causing a narrowing of the current account deficit which will improve investor confidence. For many Indonesian companies this would be helpful, because of high external debt levels.

Malaysia is feeling the sluggish world trade growth and low commodity prices more than most other Southeast Asian countries. Being a large producer of oil and gas and relying on China for its export of electronical and electrical goods, export growth stagnated last year. Though net exports will be less of a drag, GDP growth will slow to about 4.3% this and next year, from 5% in 2015. Malaysia's current account will remain in surplus, which will help investor confidence. The country has a large external financing requirement, but this is partly due to its relatively large external sector and will stay manageable because local firms have good acces to borrowing from overseas. Relatively large reserves make a steep depreciation of the ringgit, like in 2015, less likely.

In Vietnam, GDP growth is expected to stay at a level of around 6.5%, despite the worst drought in more than 90 years. Private consumption will benefit from strong earnings growth with lower inflation and interest rates. Import gains will outpace the expansion in exports, dragging on GDP growth. The current account surplus will turn into a small deficit, but the negative impact of the Chinese growth slowdown is muted because some export-oriented industries based on low production costs are transferred from China to Vietnam. In addition, exports to the US, Vietnam's main export destination, and to a lesser extent Europe, are on the rise.

The economy of the Philippines is also doing well. Real GDP growth has been at a high level for many years and will stay at around 6% in the coming years. Private purchasing power is helped by the low oil price and the continuing inflow of remittances. Business investments, government expenditures and exports are contributing to GDP growth as well. Lower growth in China does not hurt the Philippines much, because the US and Japan are the main export destinations. Weak institutions, corruption and the weak infrastructure, however, are issues.

Taken together, the major economies of Southeast Asia are showing resilience, despite China's growth slowdown.

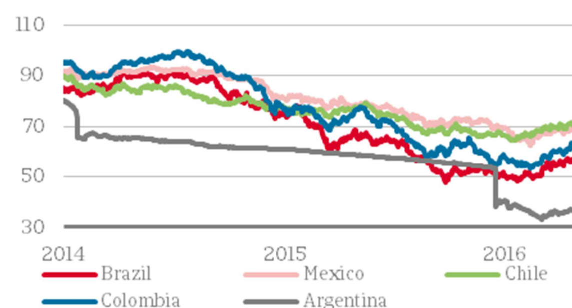
The region remains an important contributor to world GDP growth in the next two years.

Latin America: recovery delayed

Latin America has entered its second consecutive year of recession and will see only a weak recovery in 2017. This resource-rich region continues to suffer from lower commodity prices, moderate growth in China and volatility on external financial markets, which are hurting investments, while there is little to no room for countercyclical policy support. However, intra-regional divergences persist. The energy importing and manufacturing countries, primarily located in Central America and the Caribbean, continue to benefit from cheap oil and a recovering US economy, albeit more slowly than expected. However, recent release of the Panama Papers will have serious repercussions for the region's offshore centres, which are already suffering from the crackdown on tax evasion. The Pacific Alliance economies – Chile, Colombia, Mexico, and Peru – are coping best with the challenging economic environment.

Deepening political problems and policy shortcomings, particularly in the region's larger economies, Brazil and Venezuela, continue to negatively affect regional economic growth. That said, recent developments show that populism and anti-market policies are losing their allure. Election outcomes in Argentina and Venezuela and the impending impeachment proceedings against Brazilian President Dilma Rousseff signal strong demand for better policies and sounder institutions. In Argentina, the election outcome has brought a sharp policy improvement, raising hopes for a turnaround. But in Venezuela, policies were radicalised further, exacerbating the increasingly violent social tensions and putting the country on the verge of external default.

3.4 Latin America: exchange rates vis-à-vis USD
Index, begin May 2013 = 100



Source: IMF

Table 3.3 Real GDP (annual % change) – Latin America

	2015	2016f	2017f
Argentina	2.1	-1.1	3.3
Brazil	-3.8	-3.7	0.7
Chile	2.1	1.8	2.5
Colombia	3.1	2.4	3.0
Mexico	2.5	2.4	2.8
Peru	3.3	3.6	4.0
Venezuela	-5.7	-8.2	-0.2

Source: Consensus Economics (May 2016)

Argentina: turning a corner

In December 2015 reform-minded President Macri took office. He immediately started a process of returning to more orthodox macroeconomic and market-friendly policies, which has improved the economy's shock resilience and has boosted business and investor sentiment. This has brightened the medium-term economic outlook, but the short-term credit risk outlook remains very challenging. Meanwhile, the appearance in the Panama Papers of President Macri raises questions over his corruption-fighting credentials and has the potential to complicate the implementation of difficult economic adjustment measures. Credit risks thus remain elevated.

Immediately after taking office of the Macri government, foreign exchange and capital controls were dismantled (incl. scrapping of controversial export taxes), exchange rates were unified and the heavily managed exchange rate was replaced by a - dirty - float. These measures have lifted international reserves and improved the resilience to external shocks. Following these measures the substantially overvalued exchange rate lost over a third of its value. As part of a gradual fiscal adjustment, the government will end monetizing fiscal deficits, has removed electricity subsidies and cut spending. However, the fiscal deficit remains sizeable. A weaker exchange rate, removal of price subsidies and wage increases have pushed inflation to even higher levels (>30% y-o-y according to both official and private data). In response, the central bank hiked interest rates, which further illustrates policy improvements, but will weigh negatively on the short-term outlook for economic growth. The economy is currently in recession (GDP -3.5% in Q4 of 2015), which will deepen further before getting better. This is also due to headwinds in the main trading partner Brazil.

Early April, the Argentine government reached an historic agreement with the hold-out bondholders, as by then 90% of the hold-out bondholders had agreed to the terms set out by Argentina. This ended a 15-year dispute allowing the Argentine government to exit the selective default status it has been submerged in since August

2014 and to re-enter international capital markets. Mid-April the sovereign issued its first international bond, which was heavily oversubscribed and had a relatively low yield on the 10-year bond (7.5%). It is expected that several other issuances by the central government, provinces and private companies will follow. The deal and efforts to repair its relationship with the IMF (including much needed improvement of data quality) will also enable the government to access multilateral loans. This will help to improve the external liquidity position. But overall, the environment remains challenging, as reserves are expected to remain insufficient to cover the country's external refinancing needs, leaving the currency vulnerable to shifts in market sentiment.

Brazil: escalating political crisis

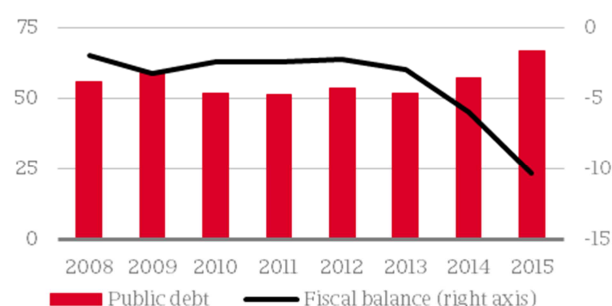
The political environment is fluid due to impeachment proceedings against former-President Dilma Rousseff, recent cabinet announcements regarding former President Lula, rising mass demonstrations and the decision by the PMDB, the largest party in Congress, to leave the governing coalition. How the political crisis ends is crucial for Brazil's outlook. Vice-President Michel Temer of the PMDB has taken over as interim president. He is a pragmatist and believed to be more effective than Mrs Rousseff at building working majorities in Congress to pass badly needed fiscal reforms. Financial markets have been rallying prior to this transition believing any new president will politically be better positioned to engineer a turnaround than the besieged incumbent. However, the transition is likely to be messy, with political tensions running high, and lots of room for disappointment. Policy improvements will be extremely difficult given the contracting economy and will in any case take time to materialize. Meanwhile, governability will continue to be hindered by the on-going *Lavo Jato* corruption investigations at the state-controlled oil company Petrobras, which have so far implicated numerous politicians (over half of Congress members), including the most senior.

Brazil's economy contracted 3.8% in 2015 and is forecast to continue contracting this year before posting still weak growth in 2017. Domestic demand is severely depressed by the fallout of *Lavo Jato*, the deepening political crisis and policy uncertainties and rising unemployment (8.2% last February). Inflation remains high, but is currently on a downward trend (9.4% y-o-y in March). However, with inflation foreseen to decline further and inflation expectations in check, the central bank will keep monetary policy on hold (SELIC policy rate at 14.25%). Positively, the current account deficit continues to shrink on the back of import contraction and currency depreciation, with the latter contributing to on-going growth of export volumes. Also, the latest indicators show that the economic contraction is easing on the back of growing export orders, which are rising at their fastest pace in more than six years. Nevertheless, credit risks are growing and although NPLs are still low at 3.5%, they are set to rise. Most vulnerable are small and medium-sized enterprises.

In December 2015, fiscal hawk Joaqim Levy was replaced by Planning Minister Nelson Barbosa following the downgrade of Brazil's sovereign rating to sub-investment grade by rating agency Fitch. Despite reassurances by Barbosa that he would continue fiscal adjustment measures the initiatives set out so far have fallen short of what is needed to put a halt to fiscal deterioration. Worse, he has recently announced measures that would further damage public finances, including a loosening of this year's target. Meanwhile, the public sector deficit approached 11% of GDP by the end of 2015, while the ratio of general government gross debt rose to 67% of GDP, about 15 percentage points higher than two years ago. Debt mechanics remain very challenging given the still contracting economy and very high real interest rates. All three ratings agencies have lowered the sovereign rating to below investment grade.

3.5 Brazil: government finances

Central government balance and debt, percent of GDP



Source: IHS

Brazil's government debt structure is low risk, with debt mainly denominated in local currency (93%) and held by residents (over 80%), mainly by local banks and pension funds. Net-portfolio flows to Brazil have significantly fallen in the run up to and during its loss of investment grade as institutional investors have had to liquidate their positions. But there is no general loss of confidence: loans to the government and banks are holding up, corporates are substituting security debt for external loans and direct investments fully financed the declining current account deficit. In early March, the government even issued a 10-year international bond of USD 1.5 billion with a coupon of 6% which was heavily oversubscribed. The real is the best performing currency so far this year. Official reserves are stable at a very high level, and are more than enough to cover this year's financing needs of the country as a whole. The banking sector is still sound. This strong shock

absorbing capacity limits the risk of a sovereign or balance of payments crisis. That said, the longer the impeachment process drags on, the worse will be its impact on Brazil's fiscal and financing conditions, its currency and economic outlook. Needless to say that this impact will be even worse in an adverse scenario in which fiscal policy continues to deteriorate and prospects of improvement fade.

Mexico: Steady at a slow pace

The Mexican economy will continue to grow at a subdued pace of around 2.5%. Main downside risks to the outlook are slower-than-expected US growth and failure to deliver on fiscal consolidation. Low oil prices have raised credit risks at state-owned oil company Pemex and the government. A government bailout of Pemex has become increasingly likely. This will however not undermine sovereign creditworthiness. The government has responded adequately, confirming a solid macroeconomic policy framework.

The government of President Enrique Peña Nieto continues to make steady progress with the implementation of its structural reforms. The administration has adopted a pragmatic approach to its strategy for oil-sector reforms in the face of still low oil prices. The other reforms (mainly in telecom, energy, labour and financial sector) are also showing slow but steady progress. However, a rise in drug-related crime and widespread corruption will continue driving public dissatisfaction.

Mexico’s economy continues to underperform, which is mainly related to low productivity growth and recently low oil prices. That said, the economy is currently profitting from a slow but steady increase in domestic demand linked to the on-going implementation of structural reforms and from a sustained upturn in exports on the back of improved competitiveness and continued growth in US demand (accounting for 80% of total exports). Latest forward looking indicators suggest that this trend will continue, with new orders rising at the fastest rate in 12 months. However, overall economic growth will remain subdued, also due to tight monetary and fiscal policy.

Last February, authorities responded forcefully to limit a relatively sharp peso depreciation during the turmoil in financial markets at the start of the year (by some 8%) reflecting market concerns about the impact of lower oil prices on government finances and Mexico’s highly liquid currency market. The government announced budget cuts and the central bank raised interest rates by a surprisingly strong 50 basis points to 3.75% to rein in the associated inflationary pressures. This was a preemptive move as inflation at 2.6% y-o-y in March is trending within the 2% to 4% target range and confirms Mexico’s solid macroeconomic policy framework. The current account deteriorated on the back of low oil prices, but the deficit remains moderate (3.0% of GDP this year from 1.9% in 2014) and is set to improve over the forecast period in line with gradually recovering oil prices.

The rise in the fiscal deficit to 3.5% of GDP last year (from 3.2% in 2014) was relatively mild, considering the sharp drop in oil revenues (by one-third). This reflected the oil price hedge, but also higher tax revenues as a result of the 2014 fiscal reform. As a result, the share of oil in government revenues has declined from a third to 20%. The debt ratio jumped to 47% of GDP (from 42% in 2014), also due to peso depreciation, but remains manageable. Market concerns about government creditworthiness nevertheless increased due to rising problems at state-owned and heavily leveraged oil company Pemex. Its net loss doubled last year, arrears to providers are mounting and liquidity is tight. Despite major cost-cutting plans, government support is necessary and is currently being discussed within the Ministry of Finance. This would weigh on sovereign creditworthiness in the short-term, but the impact will be mitigated by a solid record of policy adjustments. In an attempt to achieve its budget objectives, the government announced spending cuts of 0.7% of GDP for 2016 and 0.8% for 2017. That said, the outlook is challenging also as it would be costly to hedge oil revenues again in 2017. Still, according to our base scenario of gradually recovering oil prices, a major shock will be prevented. Moreover, risks are mitigated by Mexico’s strong shock absorbing capacity which is underpinned by sound policies, a stable macroeconomic environment, a flexible exchange rate, moderate external refinancing needs and sufficient buffers, which are supported by a precautionary credit line with the IMF.

Other Pacific Alliance: policy discipline continues to pay off

Sound fundamentals continue to keep credit risks in the other Pacific Alliance members, copper producers Chile and Peru and oil producer Colombia, in check. These countries continue to outperform their regional peers. That said, economic growth is also slowing here and prospects are highly dependent on developments in global trade and commodity prices, as they have little or no room for countercyclical support. To preserve hard-won policy credibility and shock resilience and to limit inflationary pressures from currency depreciation, all three countries have hiked policy rates since the previous Economic Outlook. Further tightening is likely in the near term. Flexible exchange rates are contributing to a narrowing of current account deficits, illustrating their shock absorbing role. This process has been fastest in Chile and slowest in Colombia.

Chile is entering a third year of disappointing economic growth. The impact of worsening external conditions was exacerbated by President Michelle Bachelet's controversial structural agenda and corruption scandals that undermined business confidence and private sector investment. A change in political course is needed to move the economy to a higher gear, but this is not expected over the forecast period (next presidential and general elections held in November 2017). That said, shock resilience remains strong and underpinned by a high income, robust institutions, sound government finances and banking system and ample external buffers (including a sovereign wealth fund).

In Colombia, a peace agreement between the government and the FARC rebel group appears increasingly likely. The signing of the agreement – although delayed - is now expected in the second half of this year and must then be ratified by a national credendum. Its ratification will boost business confidence and investment and will as such be positive for the medium-term outlook. So are large infrastructure projects. However, the near-term outlook is challenging due to a severe El Niño related drought, sharp cutbacks in investment by oil company Ecopetrol and policy tightening. Colombia experienced one of the strongest currency depreciations among the floaters (-15% -y-o-y in early April). But the country remains well placed to deal with the challenging environment, due to its solid and proactive policy response, sound government finances and banking system and solid reserves, which are more than sufficient to cover the country's – declining – external refinancing needs. Moreover, reserves are supported by a precautionary credit line with the IMF.

Market-friendly candidates Keiko Fujimori of the populist right-wing FP (and the daughter of the country's most controversial president) and former Finance Minister Pedro Kuczynski of the centre-right PPK came in first and second in presidential elections on April 11th. A second round will be held on June 5th, as Mrs Fujimori fell short of the 50% needed to avoid a runoff. Second-round polls show that Pedro Kuczynski is well positioned to win, amid widespread anti-Fujimori sentiment (Keiko Fujimori lost the runoff for the 2011 presidential elections). Whoever wins, the election results so far reflect public support for macroeconomic policy continuity. Prudent, business friendly policies combined with rising mining output as a result of past investment, have supported economic growth despite global headwinds. Inflation is decelerating, but sat at 4.3% in March still above the target range (1% to 3%), meaning that monetary policy will remain tight. Going forward, growth will profit from relatively loose fiscal policy, for which the government has room considering low debts and large fiscal buffers. Moreover, Peru pre-financed its 2016 external borrowing needs, reducing vulnerability to shifts in market sentiment.

Central and Eastern Europe: divided outlook

Central and Eastern Europe (CEE) is expected to see a better year than 2015, when the Russian recession peaked, but the region's economy is forecast to grow only 1.2% in 2016. This low aggregate figure is the result of the divided picture. On the one hand, we see resilient, demand-driven growth in Central Europe, particularly in Poland and the Czech Republic. On the other side is Russia's economy which continues to grapple with low commodity prices and the CIS economies that are largely dependent upon Russia. Ukraine is forecast to return to meagre growth this year, but remains highly vulnerable to financial and political crisis. Political uncertainties have risen in most countries (including Turkey), that will weigh on investment in 2016 and keep the overall outlook rather subdued.

Table 3.4 Real GDP growth (%) – Central and Eastern Europe

	2015	2016f	2017f
Czech Republic	4.3	2.4	2.7
Hungary	2.9	2.3	2.7
Poland	3.6	3.5	3.4
Romania	3.8	4.1	3.4
Russia	-3.7	-1.2	1.0
Turkey	4.0	3.4	3.5
Ukraine	-9.9	1.3	2.7
CIS	-3.0	-0.7	1.5

Source: Consensus Forecasts (May 2016)

Russia: good policies control damage

The Russian GDP contraction for 2015 ended up at 3.7%, slightly better than the November forecast. The main, if not sole, culprit was obviously the low oil price. It negatively affected export revenues, drove down the (freely floating) rouble and pushed up inflation to double digit figures (15%). The latter was also pressed up by sanctions that Russia imposed on EU imports. The inflation level, in turn, had a damaging impact on consumption as indexation proved insufficient, taking a 9.2% hit versus 2014. Investment, already worrying low, slumped further by 8.1%. The government did not contribute much either as its consumption shrank by 0.3%. The only positive came from net exports: through a volume boost export revenue remained almost neutral, but imports plummeted (-28%) with the demand contraction.

3.6 Russia: consumption growth
Percentage change per annum, quarterly

Source: IHS

The scenario as it unrolled throughout 2015 was widely predicted. Given the low oil prices of USD 35 and USD 45 that is foreseen for the coming period, it is expected to repeat itself in 2016. The impact though will be far less intense and GDP will gradually recover, though 2016 will be another year of contraction (-1.3%). Only in 2017 there will be an aneamic recovery: 0.9%. Russia is suffering from a wide range of economic woes which have been described extensively in previous Outlooks: a largely undiversified (energy) economy, too low investments, partly due to an unfriendly business climate and a firm grip of the state on large parts of the economy. This is exacerbated by international sanctions exchanged with the EU and the US since the Ukraine crisis in 2014. But, as now is becoming increasingly clear, Russian authorities are doing a few things right, an observation shared by, amongst others, the IMF.[32]

Firstly, despite a very low public debt (13% of GDP) and pressure from the low oil price on the budget, the government deficit is kept within acceptable margins. The objective for 2016 is 3% of GDP. This figure may not be achieved. But, it will not be considerably higher (around 4%) as a variety of measures have been announced to control the damage of the lower than assumed oil price in the budget, USD 50 per barrel Brent. Essentially, the Russian authorities provide stimulus to growth by allowing the government deficit to run up: contribution to growth 2.1% in 2015 and 1.2% in 2016. Still, in a contracting economy, this means that expenditure is under severe pressure. Indeed, with defence expenditures exempted from cuts, non-military expenditure such as pensions are hard hit.

Secondly, given the government deficit targets and the fact that indexation dominates government expenditures such as pensions, support needs to come from the monetary policy. That means tight monetary policy to fight inflation and inflation expectations. Russia is indeed pursueing this policy, with rather high rates currently in place, which may be eased if inflation comes down with the expected gradual oil price climb. Furthermore, the central bank allows the rouble to float. This has an impact on inflation if the currency depreciates, but also acts as a shock absorber for the current account. Indeed the current account is showing a large surplus: 5.5% of GDP in 2016. Meanwhile, the fairly large international reserve position of Russia hardly erodes as capital outflows are contained. Finally, the Russian central bank stepped-up supervision helps stabilise the banking sector which suffers from structural woes (too large and fragmented) as well as the current harsh Russian economic climate.

These positives do imply damage is controlled, not that economic growth can be put on a higher track. For such, the political situation is not supportive. The Russian government policy is based on an economic model that, though largely market based, with an increasingly autarkic and static signature.[33] That fits into a nationalistic policy, reflecting in stepped-up military activities such as in Syria, and sanctions on Turkey after downing a Russian airplane. That, in turn, supports the Russian ruling elite as shown in the continuing (very) high approval ratings for President Putin. Moreover, the oil price climb, as gradual as it is expected to be, will not privide incentives to change either.

Turkey: (geo)political risks and significant headwinds

Credit risks in Turkey remain elevated due to subdued economic growth, high external financing needs and a vulnerable currency. The country's growth outlook is being weighed down by Russian sanctions against Turkey and rising domestic security risks, which are negatively impacting business and investor sentiment.

The November general elections saw a surprise outcome with the AKP of President Recep Tayyip Erdogan regaining its parliamentary majority. The victory allowed President Erdogan to maintain his grip on power. Already high domestic political tensions and security risks have increased dramatically following the elections. Social and political polarisation deepened, as did the conflict with the Kurds, while spillover from civil war in neighbouring Syria continues. Since mid-2015 the Jihadi Islamic State (IS) and its affiliates have carried out four suicide bombings. Also, Russian sanctions followed the downing of a Russian bomber aircraft by the Turkish air force last November.

[32] **IMF Country Report Russia, August 2015.**

[33] **What is needed is a more open, dynamic model, allowing Russia to modernise. The business climate and international sanctions clearly do not help in this respect.**

Although fiscal policy is disciplined, the AKP's win also means that monetary policy will remain subject to political pressure, while structural reforms to raise potential economic growth will be shelved. With President Erdogan focused on changing the constitution to move Turkey from a parliamentary to a presidential system, a referendum or even early elections are becoming increasingly likely over the outlook period, leading to delays in new investment decisions.

Table 3.5 Key data Turkey

	2015	2016f	2017f
Real GDP (% change)	4.0	3.4	3.5
Inflation (% change)	7.7	8.6	7.5
Private sector credit (% change)	18.0	18.0	15.0
Current account (% GDP)	-4.8	-4.8	-4.7
Portfolio investment stock (% reserves)	132.0	130.0	130.0
Gross external debt (% GDP)	56.0	56.0	53.0
Net external debt (% XGS)	146.0	145.0	141.0
External financing need (% reserves)	193.0	182.0	181.0

Sources: Consensus Economics, Atradius

The Turkish economy has so far been resilient, but domestic and external conditions remain challenging. Moderate growth between 3% and 3.5% is set to continue in 2016 and 2017, driven by domestic demand. But Russian sanctions against Turkey, an increasingly unstable domestic security situation, increased concerns about the independence of the central bank and possibly early elections are clouding the outlook, as these factors will continue to weigh negatively on business and investor sentiment. Forward looking indicators already signal declines in manufacturing output and new orders, with export orders falling since the start of the year.

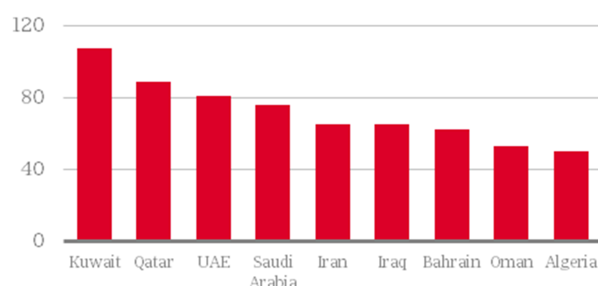
Average inflation is high at close to 8% last year - well above the official 5% medium-term target- as currency depreciation (-20% vis-à-vis the USD in 2015) has, for the most part, offset the disinflationary effects of low oil prices. Inflation is expected to remain high and above target this year, further undermining the credibility of the central bank.

Persistently large current account deficits and heavy - albeit somewhat declining - dependence on short-term capital inflows will keep external financing needs large, particularly in relation to official reserves (almost twice as high). This will continue to make the Turkish lira vulnerable to shifts in market sentiment. Triggers for such shifts are not only external, but also internal and particularly related to the security situation and concerns about monetary policy credibility. Still high dollarization somewhat limits the shock absorbing role of the exchange rate and might necessitate regular interventions, putting downward pressure on official reserves. That said, shock absorbing capacity is underpinned by sound government finances, a healthy banking system and still good access to international financial markets.

MENA: struggling with oil price and security

The economic outlook for the Middle East and North Africa (MENA) has weakened due to the decline in the oil price and a deterioration in the security situation in the region. Oil-exporting countries are taking steps to handle the expectations that the oil price will remain low for a longer period. Governments are restraining government spending, cutting subsidies and raising revenues. Despite these measures budget balances will show large deficits this year. Governments will draw from their buffers (foreign exchange reserves and SWF) and increase borrowing. It is noteworthy to mention that there are differences between the countries in the region. Both Bahrain and Oman still have a high fiscal breakeven oil price (above USD 90 in 2016) and need to adjust their government spending substantially to avoid depleting their buffers.

3.7 MENA oil exporters: fiscal breakeven oil prices
USD per barrel, 2016 forecast



Source: IIF

In comparison to other Gulf Cooperation Countries (GCC) their buffers are modest. There is room to increase borrowing, although Bahrain already has high public debt. Saudi Arabia also has a high fiscal breakeven oil price (USD 76 in 2016) and is cutting its spending and increasing revenues. Saudi Arabia has already used an extensive amount of its reserves. In a year's time the foreign exchange reserves declined 16%, to USD 592 billion in February 2016. This is still substantial, and covering more than three years of imports. For Qatar, UAE and Kuwait the need to substantially cut expenditures is less urgent due to their relatively low fiscal breakeven oil price and substantial buffers. These countries have more

Box 3 Iran: the door is open, but trade still falters

The sanctions relief should give international trade with Iran a boost. Doing business with the oil-rich country, however, is still difficult. On January 16th a landmark development in global trade took place. The US, Russia, China and the largest European countries decided that Iran had complied with the agreements that the country had made on the cessation of nuclear activities. This paved the way to suspend most, but not all, of the international sanctions. The remaining sanctions make Western banks reluctant to facilitate transactions. For long-term transactions, uncertainty about Iran's future political course may be a drawback.

In the past decade, the country became increasingly imposed with sanctions. Iran could still export oil to countries like China and India, but export revenues fell sharply. A lack of access to new knowledge and technology was harming the economy as well. The sanctions relief (there still are sanctions, especially from the US) will give Iran's export sector, and thus the entire economy, a major boost. Iranian consumers are willing to spend their money on Western consumer goods.

Yet trade with Iran will not easily get into gear, there are still several obstacles. First, there are the remaining sanctions and the associated reluctance of banks to facilitate trade. US sanctions are also hititng the European industry. A company or bank that operates in the US risks a hefty fine if it violates the US sanctions. And even when companies are doing business with Iran, without violating sanctions, their activities in the US will be screened intensively by the US authorities, with all the disadvantages that entails.

A risk for sustainability of the deal in the long-term is the highly polarised political situation in Iran. The reformists who gained support in recent elections are pleased with the rapprochement between Iran and the West. The conservative hardliners, on the other hand, are afraid of unwanted side effects. They like the extra oil exports, but increasing trade may not lead to political and social changes in the country. If it does, it can cause a reaction that threatens improved relations with the rest of the world. This may then backfire: if Iran takes steps that endanger the nuclear agreement, the sanctions will be reintroduced.

With rising oil income and more than 80 million inhabitants, Iran offers attractive prospects for European businesses. But with banks being reluctant to facilitate transactions and the risk of a worsening political situation, foreign trade still falters.

room to support their economy and can gradually reduce their budget deficits. Nevertheless, less government spending will restrain economic growth in the GCC. IMF expects economic growth in the GCC to decline from 3.3% in 2015 to 1.8% in 2016. Economic growth in the oil-importing countries is moderate due to deterioraton in the security situation; especially in Egypt, Tunisia and Lebanon. Overall, for the MENA region as a whole economic growth of 2.9% is estimated for this year and 3.3% for 2017 as oil production is expected to increase (and boost economic growth) in Iran. Key risks for the region remain political instability and insecurity.

Table 3.6 Real GDP growth (%) – Middle East & North Africa

	2015	2016f	2017f
Egypt	4.2	3.2	3.9
Morocco	4.5	1.8	4.4
Qatar	3.7	4.0	4.3
Saudi Arabia	3.4	0.8	1.2
Tunisia	0.8	2.4	3.1
UAE	3.3	2.0	3.0

Sources: Consensus Economics, IHS

Increasingly there have been reports in the media about concerns over the sustainability of the GCC currency pegs to the dollar as other oil-exporting countries (Russia, Kazakhstan and Azerbaijan) have devalued their currencies. The pegs in the GCC are being backed by large financial buffers and low debt levels to finance their deficits. With fiscal consolidations on-going, deficits reduced and a gradual increase in the oil price over the coming years the pegs should hold. GCC authorities show strong commitments to defend their currency pegs. Saudi Arabia even introduced capital controls to prevent speculation against its currency.

Egypt: increasing insecurity hits tourism

In one of the largest economies in the region, Egypt, the economic situation is weak and the outlook uncertain. The deterioration in the security situation, and especially the bombing of the Russian airliner last year, had an enormous impact on tourism and the economy. This is aggravating the already negative impact of political instability in the past years on key sources of foreign exchange, tourism and foreign investments; which resulted in shortages of dollars in the economy. Economic

growth will decelerate due to lower tourism revenues and overall weaker economic activity due to a shortage of foreign exchange. The central bank decided to devalue the Egyptian pound. Although the recent devaluation of the Egyptian pound could ease pressure somewhat on the reserves, dollar shortages are expected to remain in the short term. Other vulnerabilities for the economy are the weak government finances. The budget deficit remains large and the public debt is high at 91% of GDP. Economic growth is expected to decelerate to 3.2% this year from 4.2% in 2015.

Sub-Saharan Africa: weakening

Aggregate economic growth in Sub-Saharan Africa will slow further to 3% this year from 3.4% last year. The weak economic growth is mainly driven by external conditions: lower commodity prices and tighter financing conditions. Commodity-exporting countries have to cope with the impact of lower prices on their government revenues, export revenues and the overall economy. This is resulting in wider deficits on the government balance and the current account, declining foreign exchange reserves and weaker economic growth.

Table 3.7 Real GDP growth (%) – Sub-Saharan Africa

	2015	2016f	2017f
Ghana	3.8	5.5	8.1
Kenya	5.6	6.0	6.2
Nigeria	2.8	2.8	4.0
South Africa	1.3	0.9	1.7

Sources: Consensus Economics, IHS

Many countries have seen their currencies depreciate sharply, raising the costs of servicing their debts, which have also increased in previous years due to the favourable sentiment towards emerging markets in that period. Last year African countries, excluding South Africa, issued USD 6.75 billion of debt, in comparison with a record of USD 7 billion sold in 2014. Although foreign borrowing was still high last year, the premiums have risen. In October 2015 Ghana issued a bond, with a partial guarantee of the World Bank, with a yield of 10.75%. Angola, Cameroon and Zambia also pay more than 9%. In comparison, Zambia paid a yield of 5.375% in 2012. Copper-exporting country Zambia is dealing with the impact of the lower copper price, leading to large deficits on both the fiscal account and current account, declining reserves and a currency that has sharply depreciated. This is resulting in moderate economic growth. Oil-exporting countries Nigeria and Angola have introduced exchange rate restrictions to prevent a devaluation of their currencies. Although these restrictions are slowing the decline in reserves, they are also hampering economic activity. The prospect of a longer period with lower oil prices is also creating urgency for these countries to consolidate their government finances and make progress on economic diversification. This is however a long-term process, and the lower oil revenues will delay the much needed investments in infrastructure and energy. There is not all bad news in Sub-Saharan Africa. Investments in infrastructure and increasing consumption are stimulating economic growth in other countries, like for instance Cote d'Ivoire and Kenya.

Nigeria: rising vulnerabilities

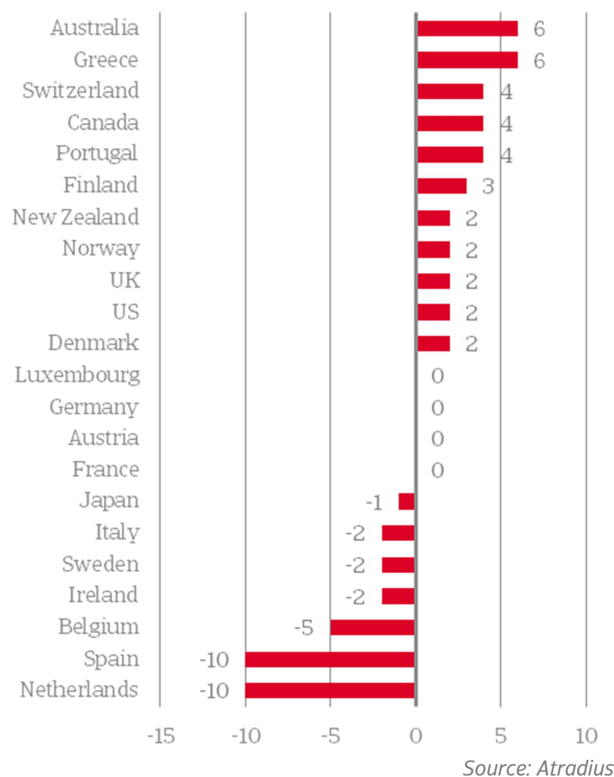
The economy has been hit hard by the sharp decline in the oil price, increasing the vulnerabilities and risks. Both fiscal and external accounts are heavily dependent on oil revenues, therefore both show wider deficits this year. The government deficit is expected to increase to 4.7% of GDP and the current account deficit to 2.8% of GDP. Uncertainty about policies and a deterioration in sentiment resulted in an outflow of foreign portfolio flows. This in combination with the current account deficit led to a decline in reserves. The central bank introduced unorthodox exchange restrictions to preserve foreign reserves and to keep the peg of the naira with the dollar. Keeping the peg is however unsustainable, making the exchange risk high. Economic growth is expected to slow to 2.3% from 2.7% in 2015 due to less availability of foreign exchange. The deceleration in economic growth is weakening corporate balance sheets and weakening the situation in the banking sector.

South Africa: challenging outlook

Economic growth will decelerate to 0.9% this year from 1.3% in 2015 due to external and domestic conditions. The weak demand for commodities, especially from China, and the lower commodity prices (platinum, gold and coal) result in weaker economic growth. But domestic challenges like a shortage of electricity, drought due to El Nino, higher interest rates, high unemployment and social unrest are also hampering economic activity. Sentiment towards South Africa has deteriorated due to the weaker economic situation, but more importantly because of policy uncertainty. The corruption case against President Zuma is also not helping South Africa as it is highly vulnerable to changes in market sentiment owing to its high dependency on portfolio investments to finance its current account. Capital outflows are high putting the currency under downward pressure. These trends are worrying and could possibly lead to a downgrade of its external ratings.

4. Implications for the insolvency environment

4.1 Insolvency forecasts 2016
Percent change from 2015



Source: Atradius

Insolvency environment in advanced economies in balance

After an overall picture of improving insolvency ratios in 2015, the insolvency forecasts for 2016 are less optimistic. In most countries the current default level will stabilise. Levels remain generally high. Particularly in Europe, the number of insolvencies in most countries is still higher than in 2007.

Insolvencies: limited change expected in 2016

With the Atradius insolvency forecast model being predominantly dependent on business cycle movements, stagnating recoveries in most advanced economies imply that the insolvency forecast outlook should stabilise for most of the 22 advanced countries that we track.

In 2016, we expect most improvement in the Netherlands, Spain and Belgium. For the Netherlands, this follows a record high level of insolvencies in 2013 and is based on the expectation of robust economic growth over the coming period, 1.6% this year and 2.0% in 2017. In Spain, insolvencies are also still recovering from a high level.

On the downside, for quite a few countries the number of insolvencies will stabilise or slightly increase in 2016. Bleak economic growth in these countries follow a period of economic stagnation. The Greek economy still suffers

from continued debt sustainability issues and economic distress. The country is faced with another year of economic contraction, with an increase in insolvencies forecast at 6%. In Australia and Canada the number of insolvencies is also expected to increase, due to their economies' vulnerability to low commodity prices.

Although the US and UK economies are among the fastest growing advanced economies, a small increase in insolvencies is expected in 2016. A major impediment has been strong currencies relative to major trade partners. As noted in Chapter 2, higher effective exchange rates cause exported goods and services to lose competitiveness at a time when external demand has already fallen. This will contribute to an uptick in bankruptcies in exporting sectors like manufacturing. Upward pressure on insolvencies in the US is also coming from the oil and gas sector where loss of profitability and lack of credit access is driving business failures. Levels of insolvencies in the US and UK are already low.

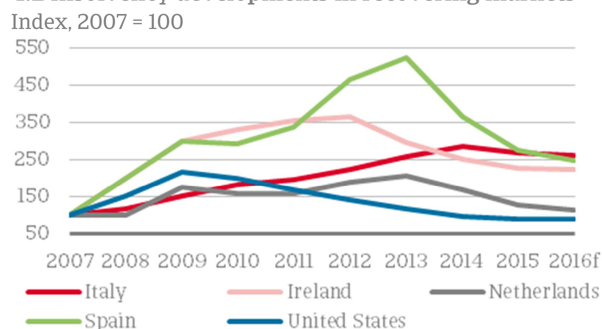
The level of business insolvencies in Japan is also very low at only 60% of what it was in 2007. We expect the rate of decline in insolvencies to slow down after the 2015 decrease of 9%, despite steady growth.

Insolvencies in the periphery: structurally higher

With this non-improving picture for this year, it seems that the pre-crisis levels of insolvencies will not be achieved in a number of countries anytime soon. In this context, the following distinctions can be made. Firstly, we observe a number of countries that have been recovering from steep increases in insolvencies after a number of crisis years. In Figure 4.2 it is shown that the number of insolvencies peaked at different points in time though. In the US, the peak was immediately after the financial crisis in 2009. Since then insovencies have recovered to a level even below that of 2007. Lower demand in emerging markets, exacerbated by weaker domestic currencies, continue to drag on exporting businesses in the eurozone. This is a particular problem for peripheral countries that have been recovering well based on a rebalancing toward exports, such as Ireland and Spain. The peak in Ireland only to begin recovering in 2013 following the 2012 peak in insolvencies. For this year, we expect the number of insolvencies to decrease slightly to a level more than twice the 2007level. For the Netherlands and Spain the peak was even more recent, in 2013, and these countries' insolvency levels remain above pre-crisis levels.

4.2 Insolvency developments in recovering markets

Index, 2007 = 100

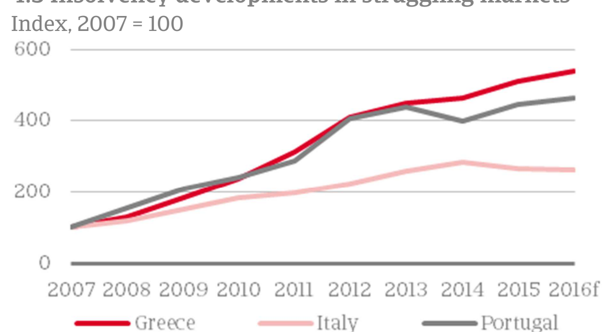


Source: Atradius

Secondly, we see several countries within the European periphery that countinue to struggle. The level of business bankruptcies has yet to even reach its peak. Greece has faced increasing insolvency rates for 10 consecutive years, including this year with an insolvency level of more than five times the 2007 level. Portugal, having reached an earlier peak in 2013, did not follow through their initial recovery in 2014. This year it awaits an expected 4% increase in insolvencies, to a level almost five times that of 2007. Though Italy seems to have reached its peak in 2014, recovery has not been strong enough since then. For this year, only a slight decrease of 2% is expected.

4.3 Insolvency developments in struggling markets

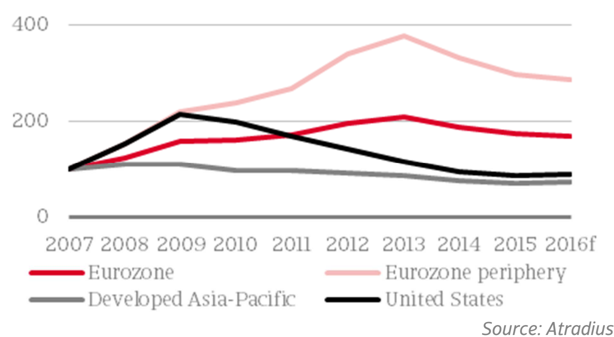
Index, 2007 = 100



Source: Atradius

Table A5 in the appendix shows how insolvencies have developed since 2007 (2007=100). The eurozone periphery in particular has suffered from the severe increase registered in the period 2007-2013. For these countries, the number of insolvencies in 2016 will still be, on average, three times the level of 2007. A similar, but less severe picture, can be seen for the euzozone as a whole. While the 2016 insolvency level is declining, it is still forecast to be 69% higher than in 2007. Meanwhile, in the US and developed Asia-Pacific, the recovery was initiated earlier. The insolvency level this year is expected to be somewhat below the 2007 level.

4.4 Insolvency developments – regional aggregates
Index, 2007 = 100

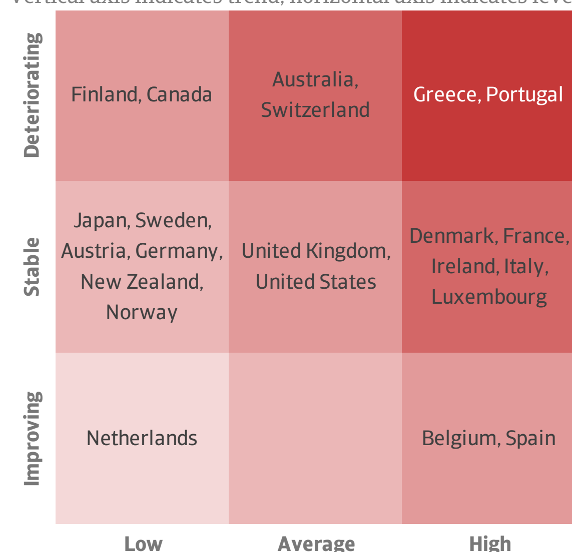


Source: Atradius

Insolvencies: level and trend

A schematic overview of the insolvency situation in advanced markets is illustrated in the Insolvency Matrix below. 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.

4.5 Insolvency matrix 2016
Vertical axis indicates trend, horizontal axis indicates level



Source: Atradius

All countries expected to see deterioration in their insolvency environment in 2016 are to be found in the top segment of the grid. In the upper right corner, Greece and Portugal are countries for which the insolvency rate is expected to deteriorate further from an already high level. For three countries insolvency rates are expected to improve, the aforementioned recovering countries Spain and the Netherlands, as well as Belgium. The majority of countries included in our forecast however are expected to display a stable insolvency development this year (i.e. a change in insolvency of no more than 2%).

Insolvencies rising in most emerging markets

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.

In general, economic conditions in many emerging markets have deteriorated. Commodity exporters suffer from lower natural resource prices, while the slowdown in China negatively impacts trade and finances in many markets. In addition, many emerging markets struggle with the expected rise in US interest rates and the stronger US dollar. The stagnation of economic growth in the BRIC countries, except for India, is expected to have consequences for the number of insolvencies. India is the only country maintaining its accelerated economic growth. Therefore, the number of insolvencies is expected to decline this year and in 2017. With China's economy slowing down and rebalancing, insolvencies are expected to increase substantially in 2016 and 2017. Companies face a change in funding conditions and in the structure of the economy as it rebalances towards more services and consumption. Export-oriented industrial sectors are hurt most. This will inevitably lead to shrinking business opportunities in these sectors, and insolvencies, with possibilities opening up in other sectors. Russia and Brazil are both forecast to see a significant increase in insolvencies this year, as financial conditions tighten and their economies contract. Their insolvency rates are forecast to increase further next year as they are expected, at best, to only gradually move out of recession.

Table 4.1 Insolvency growth

	2016f	2017f
China	Strong increase	Increase
Brazil	Increase	Increase
Russia	Strong increase	Increase
India	Decrease	Decrease

Source: Atradius

Credit risk developments for large firms

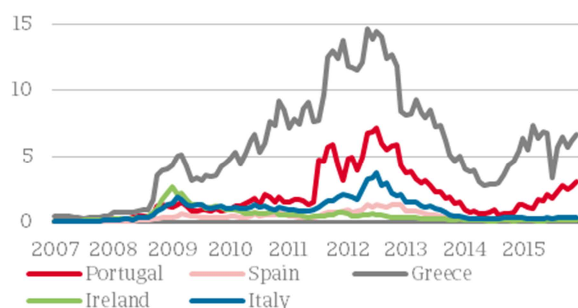
The other relevant risk statistic to characterise the insolvency environment is the expected default frequency (EDF[34]) of stock-listed companies. It offers a proxy of the financial market view on the insolvency environment. Together with lending conditions, it complements the Atradius econometric model-based picture.

The credit risk for large firms in the eurozone periphery shows a two-fold picture. On the one hand, EDFs of Spain, Ireland, and Italy have converged at a lower level after a period of high EDFs during the financial crisis. However, default levels are still at a higher level than in 2007. On the other hand, EDF volatilities in Greece and Portugal are still high. During the latest Greek debt crisis in the summer of 2015, its EDF suffered a strong increase, but after that, the EDF showed a remarkable recovery.

Stabilisation of credit risk for large firms in Western European countries is evident as the EDFs have converged and have lost much volatility. The EDFs are back to pre-crisis levels. We note, however, that the EDF figures are flattered by the expansionary monetary policy of the European Central Bank (ECB), which has pushed up equity prices and lowered financial market risk premia. As this latter effect can be seen as temporary, with the end of the expansion period, EDF figures and volatility could rise again.

4.6 Median EDF – eurozone periphery

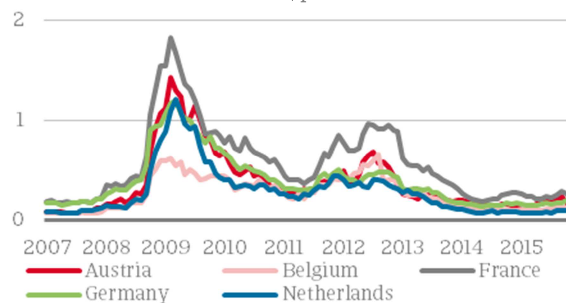
Default risk 12 months ahead, percent



Source: Moody's KMV

4.7 Median EDF – eurozone core

Default risk 12 months ahead, percent



Source: Moody's KMV

Credit conditions for advanced and emerging economies diverge

According to the April 2016 bank lending survey (BLS) of the ECB, improvements in lending conditions continue to support the growth of lending in the eurozone, particularly for enterprises. Q1 of 2016 brought further easing of credit standards on loans for businesses, with a decrease of 6%, following a decrease of 4% in Q4 2015. Net easing is expected to continue at -4% in Q2.

Bank lending conditions in emerging markets continued to tighten sharply for the third consecutive quarter in Q1 of 2016, according to the Institute of International Finance (IIF). Emerging Asia was the only region to not experience a further tightening in standards for corporate loans. NPLs across emerging markets deteriorated further with the trend expected to continue in Q2. Sub-Saharan Africa witnessed the most tightening of credit standards and worsening in domestic funding conditions, largely due to a sharp uptick in NPLs. Latin America saw the biggest decline in loan demand, weighing on bank lending. In emerging Europe, bank lending conditions tightened again after slight easing in the previous quarter. The improvement in corporate loan demand seen in Q4 of 2015 was also reversed. The rate of NPLs however in emerging Europe decreased for the first time in over two years. Aggregate NPLs across emerging markets are expected to increase further in Q2 of 2016, potentially to record highs.

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

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.)		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Australia	2.5	2.6	2.9	1.5	1.6	2.5	-1.2	-1.8	-2.3	-4.3	-3.6	-3.2	6.1	3.8	3.0
Austria	0.9	1.3	1.5	0.9	1.1	1.7	-1.2	-1.7	-1.3	2.4	2.6	3.0	2.2	4.6	3.6
Belgium	1.4	1.3	1.6	0.6	1.2	1.7	-2.6	-2.0	-1.8	0.7	1.6	1.1	3.4	3.5	4.4
Canada	1.2	1.7	2.2	1.1	1.6	2.0	-1.7	-1.3	-1.0	-3.3	-1.7	-0.6	3.0	4.6	1.8
Denmark	1.2	1.4	1.8	0.5	0.7	1.7	-2.4	-1.5	-1.2	8.7	9.2	9.3	-1.0	3.1	3.6
Finland	0.5	0.8	1.3	0.1	0.5	1.5	-2.8	-2.7	-2.7	-0.5	0.9	1.0	0.4	1.2	3.0
France	1.2	1.3	1.5	0.0	0.5	1.6	-3.5	-3.2	-3.0	0.1	-0.5	-0.7	6.1	2.7	3.1
Germany	1.7	1.6	1.5	-0.2	0.2	1.1	0.6	0.1	0.1	8.5	7.7	7.7	4.8	2.1	3.6
Greece	-0.2	-1.0	1.2	0.0	0.2	1.3	-3.7	-2.4	-1.8	-0.1	1.6	1.4	-3.7	-3.1	4.1
Ireland	7.8	4.9	3.7	0.2	0.6	1.7	-1.5	-0.9	-0.4	4.5	2.5	4.5	13.8	6.0	2.6
Italy	0.8	1.1	1.2	-1.7	-0.3	0.7	-2.6	-2.6	-2.3	2.4	1.6	1.1	4.1	2.1	2.5
Japan	0.5	0.5	0.5	-0.3	0.6	1.5	-5.3	-6.3	-6.2	3.3	3.2	3.1	2.7	1.9	4.1
Luxembourg	4.9	3.8	3.1	0.0	0.2	1.4	1.2	0.6	0.4	5.5	5.0	4.9	7.0	3.7	6.2
Netherlands	2.0	1.5	1.7	0.8	-0.1	2.2	-2.0	-1.6	-1.2	10.4	10.8	11.0	5.3	5.2	5.0
New Zealand	2.5	2.7	2.7	0.5	0.8	2.2	-0.1	-0.1	0.1	-3.3	-3.4	-3.6	6.7	1.0	2.1
Norway	1.0	1.1	1.8	0.6	1.0	2.0	5.2	3.7	4.2	8.1	9.1	10.0	2.6	1.5	2.0
Portugal	1.5	1.3	1.6	0.3	0.4	2.5	-3.0	-2.7	-2.2	0.8	0.4	0.4	5.1	2.1	3.1
Spain	3.2	2.7	2.3	2.2	2.7	1.9	-4.8	-3.8	-3.6	2.0	0.4	0.1	5.4	4.9	4.8
Sweden	4.1	3.5	2.5	0.5	0.6	1.4	-0.8	-0.4	0.1	6.3	7.2	6.8	5.6	4.8	3.5
Switzerland	0.9	1.1	1.5	-0.5	0.2	1.4	-0.1	-0.4	-0.4	11.4	9.4	8.5	0.2	4.0	3.7
United Kingdom	2.3	1.9	2.2	0.0	0.6	1.7	-4.0	-3.2	-2.1	-5.2	-4.0	-3.6	5.1	3.0	5.1
United States	2.4	1.8	2.3	-1.1	-0.6	0.1	-3.4	-3.6	-3.3	-2.7	-2.3	-2.1	1.1	1.4	4.6
Eurozone	1.5	1.6	1.6	0.1	0.6	1.8	-2.0	-1.9	-1.7	4.0	3.4	3.3	5.1	3.2	3.8
European Union	1.9	1.8	1.8	0.1	1.0	2.2	-2.3	-2.1	-1.7	2.4	2.2	2.0	5.1	3.4	4.0

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.)		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Australia	2.8	3.0	2.8	-3.9	-2.4	2.2	2.8	1.9	1.4	2.7	2.4	2.9	1.6	1.6	2.2
Austria	0.2	1.1	1.6	0.4	2.3	2.2	0.8	2.0	1.3	0.8	1.2	-0.2	0.6	1.5	2.2
Belgium	1.3	1.2	1.7	2.0	0.1	3.0	0.3	0.5	0.8	-0.2	0.3	1.0	-0.1	1.9	1.9
Canada	1.9	1.8	2.1	-3.6	-3.0	3.2	1.4	0.8	2.1	1.1	2.1	0.8	-1.3	-1.6	2.0
Denmark	2.1	1.4	1.5	1.2	2.5	4.0	0.6	1.3	2.0	0.9	1.3	0.3	1.0	1.6	1.7
Finland	1.3	0.9	0.6	-1.1	-2.1	2.0	-0.3	0.9	-0.2	-0.7	4.9	1.3	-1.1	1.2	2.5
France	1.4	1.2	1.4	0.0	1.6	2.6	1.5	1.8	1.4	1.2	2.7	1.7	1.8	1.4	1.8
Germany	1.9	2.1	1.8	1.7	4.1	3.0	2.4	3.1	2.1	2.7	1.6	0.2	0.6	2.2	2.5
Greece	0.3	-0.3	1.7	0.9	3.7	4.7	-0.1	-2.5	0.9	-1.2	-0.4	0.8	0.6	0.8	1.7
Ireland	3.5	2.7	2.8	28.2	10.5	3.3	-0.7	1.3	2.2	5.4	17.1	5.4	17.5	2.6	1.4
Italy	0.9	1.2	1.0	0.6	1.5	1.7	-0.7	0.9	0.7	0.7	1.1	0.8	0.8	1.6	1.5
Japan	-1.2	0.0	-0.4	0.1	1.7	1.6	1.2	1.4	0.8	-1.1	-0.6	-0.9	-0.9	-2.6	-0.4
Luxembourg	0.1	2.7	2.4	5.8	6.4	4.3	2.7	2.4	2.2	4.9	6.9	0.9	2.1	3.4	2.3
Netherlands	1.5	1.3	1.7	10.3	4.3	1.6	0.3	1.0	1.7	0.8	0.8	0.3	-3.6	1.0	2.4
New Zealand	2.5	2.9	3.3	3.1	-0.5	1.1	2.2	1.4	1.5	4.3	4.1	2.8	0.9	1.3	1.3
Norway	2.1	1.8	2.1	-4.0	-2.0	-0.4	1.8	2.8	2.8	0.8	-0.2	0.9	0.7	0.4	1.4
Portugal	2.6	1.3	1.3	3.7	0.4	4.3	0.8	-0.2	1.1	0.6	1.2	1.0	1.8	1.1	2.0
Spain	3.1	2.9	2.2	6.4	4.0	2.6	2.7	0.8	0.3	2.2	2.5	1.9	3.2	2.1	1.9
Sweden	2.5	2.1	1.9	6.9	4.4	2.8	2.2	1.7	1.6	5.9	3.7	1.6	2.4	1.9	2.1
Switzerland	1.0	1.1	1.5	1.4	1.2	2.2	1.7	2.0	0.9	-1.9	0.6	1.1	-2.8	1.0	2.8
United Kingdom	2.7	2.7	2.8	4.1	1.9	6.0	1.5	0.9	0.5	1.0	1.6	3.0	1.0	-0.1	2.2
United States	3.1	2.6	3.1	3.7	3.2	4.9	0.4	1.4	0.6	2.1	1.9	3.0	0.3	-0.8	2.8
Eurozone	1.7	1.7	1.6	2.7	2.9	2.6	1.3	1.7	1.4	-	-	-	1.3	1.8	2.1
European Union	2.0	2.0	2.0	3.3	2.9	3.3	1.4	1.6	1.3	-	-	-	1.4	1.6	2.2

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.)		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Asia Pacific	4.6	4.4	4.4	2.0	2.6	3.0	2.6	2.6	2.7	6.1	5.3	5.4	1.3	3.1	5.3
ASEAN	4.5	4.2	4.4	2.7	2.6	3.8	4.1	3.6	3.2	4.9	4.6	4.7	2.0	3.0	4.2
China	6.9	6.5	6.3	1.4	2.3	2.3	2.7	3.1	3.6	8.4	6.0	6.2	3.7	3.5	5.9
Hong Kong	2.4	1.7	2.0	3.0	2.7	2.7	3.5	2.6	2.5	4.7	2.3	2.5	-1.5	1.5	3.8
Taiwan	0.7	1.4	2.3	-0.3	1.2	1.2	14.6	13.9	13.8	2.3	1.9	2.5	-0.1	1.6	2.4
India	7.5	7.6	7.7	4.9	5.3	5.8	-1.1	-1.2	-1.2	6.2	8.7	7.7	-6.1	3.0	9.3
Singapore	2.0	1.8	2.2	-0.5	-0.4	1.8	22.4	19.1	17.6	4.4	3.4	2.7	2.5	2.5	3.2
Latin America	2.0	-0.6	2.0	16.1	40.6	12.4	-3.4	-3.0	-2.8	-1.8	-2.0	0.3	1.5	0.7	1.9
Argentina	2.1	-1.1	3.2	16.5	38.3	26.1	-2.6	-4.2	-3.9	0.6	0.4	1.3	-1.7	6.0	3.3
Brazil	-3.8	-3.8	0.6	9.0	8.4	5.5	-3.3	-2.0	-2.0	-4.0	-4.1	-0.7	6.1	0.5	1.9
Mexico	2.5	2.4	2.9	2.7	2.7	2.7	-2.9	-2.3	-2.4	3.1	2.4	2.4	9.1	4.2	4.2
CIS	-3.0	-0.7	1.5	15.2	9.6	7.5	3.4	2.1	3.2	-7.6	-6.8	0.2	-2.7	0.6	3.3
Czech Republic	4.2	2.4	2.7	0.3	0.7	2.1	0.9	0.5	-0.5	2.8	2.9	2.6	7.2	4.3	4.6
Hungary	2.9	2.4	2.6	0.0	0.6	1.8	4.4	3.6	3.0	2.6	2.6	2.7	8.4	3.6	4.0
Poland	3.6	3.6	3.4	-0.9	-0.1	2.0	-0.2	-1.1	-1.5	3.1	3.8	3.6	6.5	5.1	4.3
Russia	-3.7	-1.3	1.1	15.5	7.7	6.9	5.4	3.2	4.6	-10.1	-8.4	-0.8	3.1	0.5	2.7
Turkey	4.0	3.3	3.5	7.7	8.1	7.6	-4.4	-5.7	-5.5	4.5	4.0	3.5	-0.9	0.8	1.6
Sub-Saharan Africa	2.9	2.7	3.6	7.3	9.2	8.3	-5.3	-5.6	-5.0	3.2	2.5	3.4	0.9	1.7	5.6
Nigeria	2.8	2.8	4.0	9.0	12.3	11.5	-2.4	-2.2	-2.2	1.3	0.8	2.1	-14.2	-5.9	8.7
South Africa	1.3	0.9	1.7	4.6	6.4	6.0	-4.4	-5.3	-5.9	1.6	0.5	1.1	9.0	4.4	5.7
MENA	2.3	2.9	3.3	4.3	4.9	5.9	-2.0	-3.2	-0.7	3.1	2.9	3.3	4.0	3.7	5.1
World	2.6	2.4	2.8	2.4	4.1	3.2	-	-	-	2.5	2.4	2.9	2.8	2.9	4.4

Sources: Consensus Economics, IHS, IMF

Table A4: Insolvency growth (% per annum)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016f
Australia	-4	18	3	-1	5	1	4	-22	10	6
Austria	-6	0	9	-8	-8	3	-10	-1	-5	0
Belgium	1	10	11	2	7	4	11	-9	-9	-5
Canada	-7	-2	-12	-20	-11	-12	-2	-2	-1	4
Denmark	21	54	54	13	-15	0	-10	-20	1	2
Finland	-1	16	25	-13	3	0	11	-11	-22	3
France	7	8	14	-5	-1	3	2	0	0	0
Germany	-15	0	12	-2	-6	-6	-8	-7	-4	0
Greece	0	30	40	30	33	30	10	3	10	6
Ireland	19	100	50	10	7	3	-19	-15	-10	-2
Italy	-35	18	29	21	8	14	16	10	-6	-2
Japan	6	11	-1	-14	-4	-5	-11	-10	-9	-1
Luxembourg	5	-13	17	33	5	8	2	-20	6	0
Netherlands	-23	1	73	-10	-1	21	10	-19	-24	-10
New Zealand	-5	-35	45	-6	-12	-8	-13	-7	4	2
Norway	-6	28	38	-12	-2	-12	20	-5	-7	2
Portugal	-12	54	36	16	18	42	8	-9	12	4
Spain	10	100	50	-2	14	38	13	-30	-25	-10
Sweden	-5	7	20	-4	-4	7	5	-7	-9	-2
Switzerland	-5	-2	24	20	7	3	-5	-7	7	4
United Kingdom	-5	24	23	-16	5	-4	-7	-6	-9	2
United States	2	52	41	-7	-15	-16	-17	-19	-8	2

Sources: National bureaus, Atradius Economic Research

Table A5: Insolvency level, index

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016f
Australia	100	118	121	120	126	127	133	104	115	122
Austria	100	100	110	101	93	96	87	86	82	82
Belgium	100	110	123	125	133	138	153	140	127	121
Canada	100	98	86	69	62	54	54	52	52	54
Denmark	100	154	238	269	228	227	204	163	165	168
Finland	100	116	145	127	131	131	145	129	101	104
France	100	108	123	118	116	119	122	122	122	122
Germany	100	100	112	110	103	97	89	83	79	79
Greece	100	130	182	237	315	409	450	463	510	540
Ireland	100	200	300	330	354	365	296	252	228	224
Italy	100	118	151	183	197	223	259	285	268	262
Japan	100	111	110	95	90	86	77	69	63	62
Luxembourg	100	87	102	135	141	152	155	124	130	130
Netherlands	100	101	175	158	156	189	207	167	127	114
New Zealand	100	65	94	89	78	72	63	58	61	62
Norway	100	128	176	156	153	134	161	152	142	144
Portugal	100	154	210	242	286	405	438	398	446	464
Spain	100	200	300	293	335	463	523	366	274	247
Sweden	100	107	128	123	117	126	133	123	112	110
Switzerland	100	98	121	145	154	159	150	140	149	155
United Kingdom	100	124	153	128	135	129	120	112	102	104
United States	100	152	215	199	169	142	117	95	88	89

Sources: National bureaus, Atradius Economic Research