Weekly Export Risk Outlook

EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: +29% > INCREASE IN GLOBAL INSOLVENCY INDEX 2009

Global Growth Outlook: Slower in 2011

Euler Hermes' latest forecast is for global economic growth of 3.3% in 2010, slowing to 2.9% in 2011. The slowdown will be proportionally more pronounced in OECD countries (+2.1% in 2010 and +1.8% in 2011) than in the rest of the world (+5.6% in 2010 and +5.1% in 2011). World trade will move more or less in line with GDP trends, with volume growth declining from 11% in 2010 to 8% in 2011. Europe is the only region to be affected lastingly by the crisis, with growth failing to reach 1% in the Eurozone in both 2010 and 2011 and domestic demand growth virtually nil in 2010 and still very weak in 2011 (-0.2% and +0.5% yearly average, respectively) hampered in particular by announced or expected austerity measures. Investment, which contracted significantly in 2009, will not pick up again until 2011, when it is expected to grow by 1.2% after a fall of 3% in 2010.

Insolvency Outlook: Regional differences

Euler Hermes' Global Insolvency Index broke two records in 2009—the volume of insolvencies (at its highest) and the annual increase of insolvencies (+29%). The global economic recovery, although set to slow in 2011, should be accompanied by a decline in corporate insolvencies worldwide, but the decline is likely to be moderate (-3% 2010 and -5% 2011) and as uneven from country to country as the economic recovery. Expect insolvencies to decline significantly in the Asia-Pacific region (-9% in 2010) and, after rising substantially for two years, in the US (-10%). In contrast, insolvencies should continue to rise in several European countries, particularly in southern Europe—Spain (+10%), Greece (+25%) and Portugal (+5%). Corporate insolvencies are unlikely to decline as an annual average before 2011 in Germany (+1%), France (+2%), Austria (+5%) and Ireland (+9%).

Romania: IMF funding

Last week, the Constitutional Court overturned a planned 15% pension cut this year, which was an essential part of government austerity measures pushed through parliament in a confidence vote a week earlier, despite large public protests. The austerity package was deemed necessary to meet an IMF-agreed fiscal deficit target of 6.8% of GDP and, faced with a possible breach of the target the Fund postponed a decision on the disbursement of EUR850mn scheduled for this week. The government quickly responded to the court decision by raising the VAT rate from 19% to 24% from 1 July, an option it had rejected earlier, and hopes that this will be sufficient to restore IMF support. Through June, uncertainty over the implementation of the programme has pushed the RON down by about 5% against the EUR and also resulted in the failure of bond tenders.

India: Fuel subsidies cut

Significant cuts to energy and fuel subsidies were announced last week. In a country with pervasive poverty and where annual subsidies can amount to 1.6% of GDP, this is a strong policy statement, reflecting a relatively stable political and economic environment. The prices of four fuel products—petrol, kerosene, gas used for cooking (LPG) and diesel—have been controlled for eight years but, under the new regime, petrol prices were increased effectively by 7-8% and will now be determined by market forces. Other changes to the subsidy programme will be phased in. The government appears determined to achieve its target of reducing the budget deficit by 1-2pp of GDP in FY2010-11 and with these subsidy reductions expect an overall fiscal deficit of around 6-7% of GDP in 2010 and 2011.

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Countries in Focus

Mediterranean countries & Africa – *Central Africa: Banking*

The IMF suspended disbursements to CEMAC countries—Cameroon, Central African Republic, Chad, Congo Republic, Equatorial Guinea and Gabon—through the group's central bank, BEAC, because of concerns with the administration of the latter. This raises uncertainties relating to regional integration, use of the common currency (CFA franc) and general trading conditions. However, despite some heightened nationalism, it is unlikely that the Central African group will collapse as it provides financial and economic strengths otherwise unavailable to individual states. In addition, the CFA franc is also the currency of another African bloc (UEMOA in West Africa) and is freely convertible into the euro and so is unlikely to be replaced. Expect CEMAC to improve the workings of BEAC but lingering concerns will adversely impact on the trading and investment environments.

Americas – *Argentina: Debt swap completed*

The debt swap offer to hold-out bondholders from the 2005 sovereign debt restructuring has achieved a 66% acceptance rate, above the government's 60% objective. It remains to be seen, however, if this can be followed by a return to international capital markets at a satisfactory interest rate, though the government does not have an urgent borrowing need. Paris Club debt is still an outstanding issue, but is unlikely to be resolved quickly as a solution will probably involve some form of economic review by the IMF, which could prove fraught. Meanwhile, recently released data confirmed strong Q1 growth of real GDP at 6.8% yr/yr and the indicator of economic activity for April was up 9.7% yr/yr, helped by strong agricultural output.

Asia-Pacific – *Taiwan: Cross-straits agreement*

An Economic Co-operation and Framework Agreement (CFA) has been signed with Mainland China. The CFA will cut tariffs on goods and lift some restrictions on services, enhancing economic links. The agreement also reflects the improved relationship between the two under in the past two years under the leadership of the KMT, which replaced the pro-independence DPP. In a surprise move this week, the central bank raised the policy interest rate to 1.375%, beginning to reverse expansionary monetary policy as the economy has grown strongly in the first part of 2010. However, there are signs that the economy is already slowing (industrial production was flat in the past three months and export and import orders are growing less strongly).

Europe – *Slovenia: Solid fundamentals*

The economy was dragged into recession in 2009 by the impact of the global economic crisis, but macroeconomic fundamentals have remained solid overall and a mild economic recovery is forecast in 2010. Expect real GDP to grow by 0.5% this year after contracting by 7.8% in 2009. The fiscal deficit rose sharply to 5.5% of GDP in 2009 and is forecast to reach about 6% in 2010 but public debt was still a moderate 35.9% of GDP at end-2009 and, overall, the fiscal position is better than the average of the Euro-zone. Adoption of the euro in 2007 provides for low transfer and convertibility risk and has substantially decreased external vulnerabilities related to exchange rate volatility. Systemic political risk is very low, underpinned by EU and NATO membership, and the business environment is strong.

Worth knowing

Mexico

The monthly economic activity indicator increased by 7.2% yr/yr in May, the strongest in two years.

Kenya

PM Raila Odinga has reportedly had an operation to remove fluid from the brain. Expect further political uncertainties, with Odinga's ODM and President Mwai Kibaki's PNU in a fragile power-sharing government.

Burundi

Official results from Monday's presidential elections are not yet available but incumbent Pierre Nkurunziza will win—he was the only candidate.

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