



Monthly Economic Update

Economic developments and analysis

May 2014

Summary

- Page 2** **Global** – Advanced markets experience increasing economic growth, while emerging markets face headwinds.
- Page 3** **Eurozone** – Important steps in order to establish a banking union have been taken. Economic growth has returned, but unemployment remains high.
- Page 4** **Other Advanced Markets** – Despite poor growth in the first quarter, the outlook for the US economy is bright. The UK experienced a solid first quarter and maintains its positive outlook.
- Page 5** **Emerging Markets** – The situation in Ukraine is deteriorating strongly. Currencies in Latin-America are depreciating. Asia profits from the rebound in advanced markets.
- Page 6** **Credit and Insolvencies** – Credit conditions in the Eurozone are loosening on average. However, differences between member states continue to exist.
- Page 7** **Table: Macroeconomic indicators for key markets**

Global

Emerging markets struggle

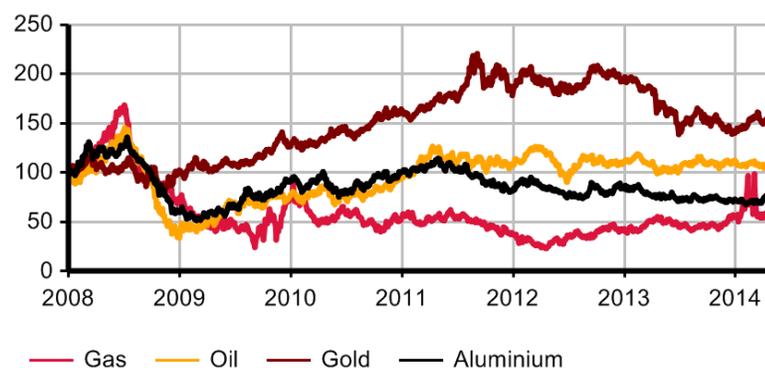
Global growth is expected to reach 2.9% in 2014. This is higher than the 2.5% growth in 2013, but 0.1% lower than forecast last month. Growth in Asia is expected to level off at 6.0% in 2014 and 6.1% in 2015, after reaching 6.1% in 2013. The Eurozone is expected to show an economic growth rate of 1.2% in 2014, however, this is lower than forecasts for other developed markets: the US economy is expected to grow 2.7%, and the UK economy 2.8%.

Oil prices fell 0.7% in March to US \$104 per barrel due to decreasing demand. However, the price remains relatively high due to lower production in Libya. Due to maintenance work, a slight increase is expected for the coming months. The gas price in the United States fell by 18.3% in April after the sharp increase of 22% last month as a result of extremely cold weather.

Financial markets are now less optimistic about emerging markets as growth forecasts have been revised downwards (as opposed to those of developed markets) and the US monetary policy has triggered a decreased inflow of cheap capital. In addition, China's rather disappointing economic growth and the fragility and opaqueness of its financial system is a big concern.

Commodity Prices

(Indexed: 2008 = 100)



Source: IHS Global Insight

Eurozone

Unemployment suppresses demand

	Economic growth forecasts	
	2014	2015
Eurozone	1,2	1,5
Germany	1,9	2,0
Austria	1,4	1,8
Ireland	1,6	2,2
Belgium	1,2	1,4
Finland	0,5	1,5
France	0,9	1,3
Netherlands	0,9	1,2
Italy	0,6	1,1
Spain	1,0	1,5
Portugal	1,4	1,9
Greece	0,1	1,5

Source: Consensus Economics, April 2014

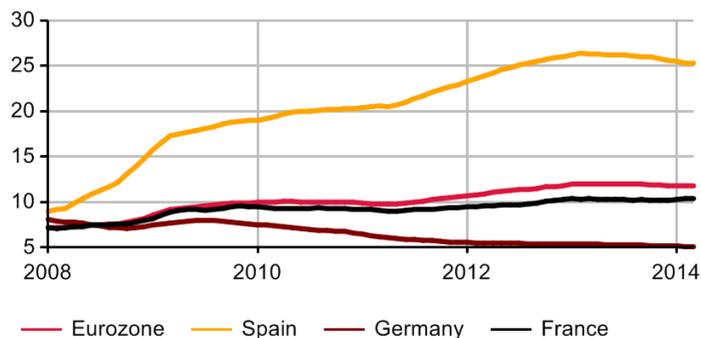
The Eurozone is forecasts to grow moderately in 2014, by 1.2%. One bright spot is that, unlike last month, there is now a small positive growth forecast for Greece of 0.1%.

Currently the unemployment rate in the Eurozone is 12% which is still very high. Due to the persistent high jobless rate structural unemployment could also be on the rise. Consumers are still reluctant to spend due to job insecurity. In addition, wages remain under pressure as companies have to stay competitive in the challenging economic environment.

The European banking union is a step closer to completion: On April 15th, the European Parliament passed new regulations. For example, national bank deposit guarantee schemes must guarantee savings of up to at least €100.000,-, € 200.000,- for short-term deposits (such as after the sale of a house). In addition, shareholders and bondholders will now be the first bearers of the costs of a bank's bankruptcy - before claims can be made to a fund to be set up with support capital. The final implementation of this procedure is yet to be determined.

Unemployment Rate

(Percentage of potential work force)



Source: IHS Global Insight

Other Advanced Markets

Outlook for the US economy still positive

Economic growth forecasts		
	2014	2015
US	2.7	3.0
UK	2.8	2.4
Japan	1.3	1.3

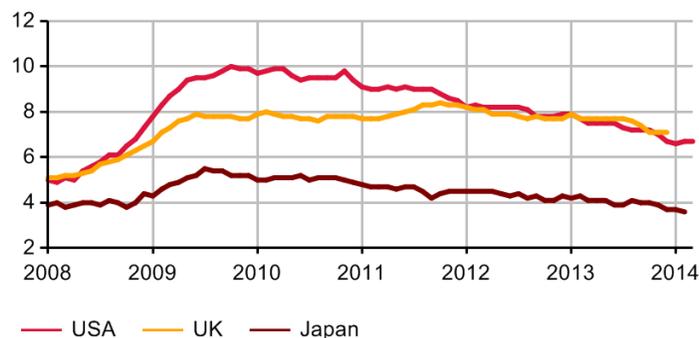
Source: Consensus Economics, April 2014

The US economy grew 0.1% in the first quarter, far below analysts' expectations. The low growth was the result of the extremely cold weather in a large part of the US during the first months of the year. However, the outlook for the rest of the year is still positive. This was reflected in the strong increase of job creation over the past months. The unemployment rate was 6.7% in March, down from 7.5% a year ago. The central bank (Fed) is also positive about the outlook and has decided to further reduce its bond purchase program. However, the benchmark interest rate is not expected to be raised before mid-2015. The US economy is projected to grow 2.7% this year, up from 1.9% in 2013. The GDP growth rate is forecast to increase to 3.0% in 2015.

The recovery of the British economy continues, as the economy expanded 0.8% in the first quarter, a small increase compared to the 0.7% growth in the fourth quarter of last year. Both the service sector and the industry performed well, according to the first estimate by the national statistics office ONS. In 2013 private consumption was the sole driving force for economic growth while investment lagged behind. But the new figures suggest that the base for the rebound has broadened. In 2014 the economy is expected to expand 2.8%, compared to 1.7% last year. In 2015 growth will stabilize at 2.4%.

Unemployment Rate

(Percentage of potential work force)



Source: IHS Global Insight

Emerging markets

Ukraine's economy suffers severely

	Economic growth forecasts	
	2014	2015
Asia (ex. Japan)	6.0	6.1
Latin America	2.2	2.8
Eastern Europe	1.7	2.8
Brazil	1.8	2.0
India	5.4	6.8
China	7.3	7.2

Source: Consensus Economics, April 2014

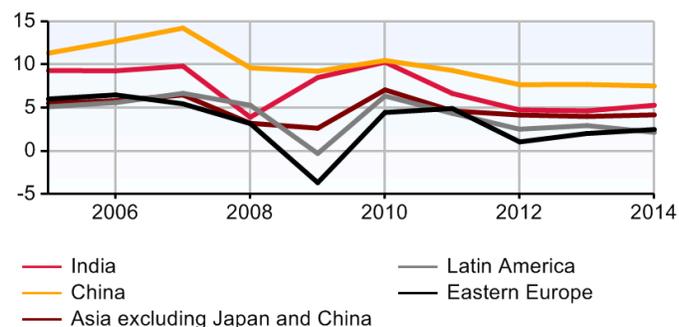
The situation in Ukraine continues to deteriorate, while the economy has tanked. Ongoing clashes in the Eastern cities between Ukrainian and Russian separatists have turned increasingly violent. The Mayor of Kharkov was shot, observers are captured (and released) and separatists gained control over the provincial capital of Luhansk on April 29. The economic situation is also dramatic. The Ukrainian currency, the hryvnia, has dropped over 40% against the US dollar since February and for 2014 an economic contraction of 3.9% is expected. The IMF has pledged a support package worth € 12 billion to avoid a financial collapse.

In late January, the central bank of Argentina was no longer able to maintain the peg between the US dollar and the peso. As a result, the peso depreciated 15%. Latin America, and emerging markets worldwide, has seen capital outflows as a consequence of domestic issues and the change in monetary policy conditions in the US.

Exports from Asia have the opportunity to benefit from the returned economic growth in the Eurozone, the United States and Japan. However, concerns about the sustainability of China's growth continue to increase. For example, the debt of local governments has risen to nearly US\$ 3 trillion. Half of this debt will expire by the end of 2015, and must be repaid or refinanced, but it is unclear whether the local authorities have the financial strength to do this.

Economic Growth

(Forecasts, Percentages, Annual)



Source: IHS Global Insight

Credit and
Insolvencies

Credit conditions have eased, but large differences remain

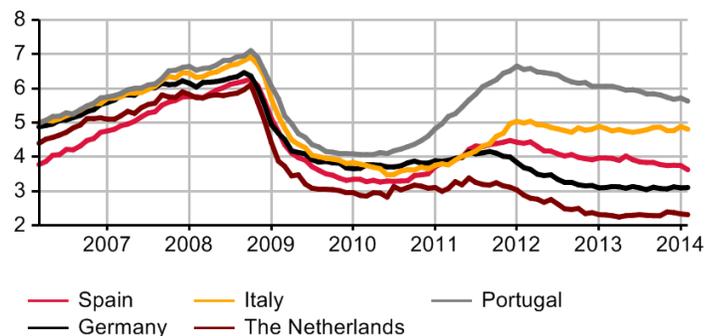
The average credit conditions for businesses and households have stabilized in the Eurozone. Currently banks have reduced their risk perception due to favourable macroeconomic and business outlooks. That said, risks related to home buying have slightly increased. Demand for loans has increased in all categories, for the first time since mid-2011. The largest increase in demand for loans was for home buying.

However, there are major differences in the conditions amongst the Eurozone members. In the Netherlands, credit conditions for businesses eased, while they tightened (especially) in Italy. In Germany, France and Spain, loan conditions remained stable. The conditions for loans for the purchase of a home, however, were eased in Italy while turning tighter in the Netherlands and in Germany. In France and Spain, those conditions remained stable.

The demand for loans also varies greatly within the Eurozone. In the Netherlands, the demand for corporate loans declined, while it rose in Spain and France and remained stable in Germany and Italy. The demand for loans for house purchase rose in Germany, Italy and the Netherlands, remained stable in Spain and declined in France.

Interest Rates on Corporate Loans

(up to 1 year)



Source: IHS Global Insight

Macroeconomic indicators for key markets

	GDP growth (% of GDP)			Budget balance (% of GDP)			Current account balance (% of GDP)			Export growth (%)			Political risk Rating ¹
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015	
Western markets													
Austria	0,5	1,8	2,0	-2,5	-2,1	-1,3	1,9	2,6	2,8	1,0	4,4	6,3	1
Belgium	0,2	1,4	1,6	-3,0	-2,7	-2,0	-1,0	-0,5	-0,1	0,2	6,0	6,1	2 POSITIVE
Finland	-1,4	0,8	1,8	-2,5	-3,0	-2,3	-0,7	-0,2	-0,5	0,6	4,3	5,3	1
France	0,3	0,6	1,2	-4,2	-3,9	-3,4	-1,7	-1,6	-1,2	0,6	2,7	5,7	1
Germany	0,5	2,1	2,0	0,0	0,1	0,1	7,3	6,7	6,6	0,6	6,1	5,3	1
Greece	-3,9	-0,2	1,7	-2,5	-2,4	-2,0	0,6	1,0	1,4	0,4	2,4	4,3	7 POSITIVE
Ireland	0,1	2,2	2,4	-7,2	-4,6	-2,8	4,9	4,5	4,5	1,7	4,9	5,6	4 POSITIVE
Italy	-1,8	0,4	0,9	-3,1	-2,9	-2,0	0,7	1,1	0,9	0,0	2,0	2,5	4 POSITIVE
Netherlands	-0,8	1,0	1,5	-4,4	-4,0	-2,9	11,6	12,2	12,0	1,2	4,4	6,1	1
Portugal	-1,4	1,3	1,3	-5,4	-4,0	-2,8	0,5	0,9	1,3	5,4	3,1	5,2	5 POSITIVE
Spain	-1,2	0,6	1,2	-6,8	-5,7	-4,6	1,0	1,0	1,5	5,2	4,2	4,4	4 POSITIVE
Eurozone	-0,4	1,1	1,5	-3,0	-2,6	-2,0	2,8	2,8	2,9	0,9	5,4	7,0	-
Australia	2,4	2,5	2,9	-1,4	-2,1	-1,5	-2,9	-2,5	-3,3	5,5	5,9	7,6	1
Canada	2,0	2,2	2,7	-3,0	-1,6	-0,7	-3,2	-2,4	-1,7	3,4	6,4	7,3	1
Denmark	0,4	1,0	2,0	-2,3	-1,9	-1,4	7,1	7,6	7,9	1,9	6,5	6,8	1
Norway	0,8	1,7	1,5	11,7	11,3	10,4	8,6	7,3	10,2	-2,7	2,5	2,0	1
Sweden	1,5	1,9	2,2	-1,2	-0,8	-0,4	6,5	6,6	6,6	-4,6	2,3	5,0	1
Switzerland	2,0	2,2	2,3	0,2	0,3	0,3	13,0	11,8	10,8	1,7	3,9	4,3	1
UK	1,8	2,7	2,6	-5,6	-5,3	-4,2	-3,8	-3,1	-2,3	2,6	4,6	7,4	1
USA	1,9	2,5	3,3	-4,6	-4,8	-3,9	-2,3	-1,7	-2,0	2,7	5,5	6,2	1
Central and Eastern Europe													
Czech republic	-0,9	2,1	2,7	-2,6	-3,1	-3,3	-1,0	-1,5	-1,9	1,2	3,6	5,7	3 NEGATIVE
Hungary	1,2	2,4	2,9	-3,0	-3,1	-3,8	2,3	2,1	1,7	5,9	7,1	7,7	5 STABLE
Poland	1,5	2,9	3,4	-2,2	2,4	-1,4	-1,5	-1,8	-2,2	4,5	2,7	6,7	3 NEGATIVE
Russia	1,3	1,7	2,2	-0,2	-0,8	-0,5	1,6	1,0	0,6	-0,4	2,8	4,4	5 POSITIVE
Slovakia	0,9	2,3	3,9	-2,9	-2,9	-3,2	2,4	1,6	1,4	1,2	4,9	5,8	3 STABLE
Turkey	3,9	2,8	3,9	-1,2	-2,7	-2,9	-8,0	-6,9	-6,6	6,5	10,0	10,5	5 STABLE
Asia													
China	7,7	7,5	7,6	-1,9	-1,8	-1,4	1,9	2,0	2,0	4,6	5,1	6,7	3 STABLE
India	4,6	5,4	6,1	-4,9	-4,7	-4,6	-2,4	-2,9	-3,6	22,4	19,8	18,3	5 POSITIVE
Japan	1,6	1,4	1,4	-9,4	-7,1	-6,0	0,7	0,2	0,2	10,2	5,0	6,2	2 STABLE
Latin America													
Brazil	2,3	2,0	3,0	-3,3	-2,9	-2,2	-3,6	-3,6	-3,5	10,3	12,9	7,8	4 NEGATIVE
Mexico	1,1	2,9	4,2	-2,3	-2,9	-2,6	-1,4	-1,4	-1,2	0,3	10,6	11,5	4 NEGATIVE

¹ Note: STAR is Atradius' in-house political risk rating. The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk. In addition to the 10-point scale there are rating modifiers associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

Sources: IHS Global Insight, National accounts, Atradius Economic Research

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