no. 9 2010

Global Macroeconomic Review

Despite the dangers, the slowdown anticipated in 2011 does not compromise the recovery

Spotlight

on Country Risk

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Economic Outlook

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Editorial

Commodities: back to square one?

Frankly, we could have well done without it. At a time when world economic recovery is on the road to succeeding, when tensions on European bond markets are calming thanks to convincing European political action led by Germany, when a consensus seems to be emerging in the United States on winding down its recovery measures, and when even China accepts the logic of trimming its trade surplus a little, the surge in commodity prices again weakens the beginnings of international equilibrium. At $90 a barrel, oil effectively returned to the record levels of spring 2008: in euros, the January 2010 monthly price is the third highest on record! And oil is not an isolated case: copper, nickel, and rubber have all climbed steeply during the past six months, as have agricultural commodities. These movements are in part structural: world energy requirements are back to levels recorded in 2008, notably because of Asia's formidable industrial advance over the past six quarters. In one way, the commodity price increase is healthy – reminding the world of a basic rule in economics: that scarcity commands a premium. It also reminds us – given our dependence on a number of key commodities – that it is high time to invest more determinedly in R&D in energy and transport, if we want to avoid barring the road to further world economic expansion in a few years' time. Unfortunately, some of the commodity price movements are probably also speculative. The 'easy' money distributed by central banks has gone more into the financial markets than into credit creation in the real economy. Those markets that are most susceptible to speculative action are the first to be hit. And it seems fairly obvious that this is what we see at work in the markets for certain agricultural commodities. The problem is that it is precisely the escape of easy money into the commodities markets that was, first, the trigger of the recession in 2008 and, second, the early warning of a profound global financial disequilibrium. On the latter of these two points, there are unquestionably problems that exist today, but they are very different from those seen in 2008: the current situation is not one of excessive credit in a few speculative bubble markets (such as real estate), but rather more a case of excessive credit in markets without profitability. On the first point, by contrast, we are indeed back to square one: soaring energy and food prices have an immediate impact on consumers' wallets, as well as a strong impact on consumer sentiment. Europe went into recession in spring 2008 due to the contraction in household demand. We are not yet at that point. Notably, the other categories of inflation (underlying inflation) are for their part on a deflationary curve. But if the rise in oil prices continues in 2011, the same causes will produce the same effects, and household consumption could be shaken – a very incongruous scenario of inflationary deflation.

Revised forecasts

GDP growth 2011

	Jun. 2010	Dec. 2010	Revision
World	2.9%	3.2%	0.2%
USA	2.6%	2.8%	-0.2%
Canada	3.0%	2.4%	-0.7%
Japan	1.4%	0.9%	-0.4%
Euro zone	0.9%	1.3%	0.4%
Germany	1.3%	2.1%	0.8%
France	1.1%	1.3%	0.2%
Italy	0.7%	1.0%	0.2%
Spain	0.2%	0.5%	0.3%
Netherlands	1.3%	1.3%	0.0%
Belgium	1.3%	1.5%	0.2%
Austria	1.6%	2.0%	0.3%
Finland	1.9%	2.6%	0.7%
Greece	-2.9%	-2.2%	0.7%
Ireland	1.3%	0.9%	-0.4%
Portugal	0.6%	0.1%	-0.5%
UK	1.4%	1.5%	0.1%
Sweden	1.8%	3.4%	1.6%
Denmark	1.3%	1.7%	0.5%
Norway	1.8%	1.6%	-0.2%
Switzerland	1.3%	1.9%	0.6%
Central and Eastern Europe	2.8%	3.1%	0.3%
Russia	2.8%	3.0%	0.2%
Asia (excluding Japan)	6.8%	7.1%	0.3%
China	8.5%	8.8%	0.3%
India	8.0%	8.5%	0.5%
Latin America	3.3%	3.6%	0.3%
Brazil	4.2%	4.3%	0.1%
Middle East and Africa	4.7%	4.3%	-0.4%

Sources: IHS Global Insight, Euler Hermes forecasts

World economic growth

Despite the dangers, the slowdown anticipated in 2011 does not compromise the recovery

Overview

The year 2011 promises indeed to be one of transition in the world economy. After the abrupt halt in world trade and the plunge in activity seen over winter 2008-2009, the fragile recovery that emerged in spring 2009 continued throughout 2010. Thanks to the impulses given by the implementation of massively expansionary monetary and fiscal policies and by the end of a major wave of destocking, the global economy looks to have ended 2010 with a run of seven consecutive quarters of growth. This has enabled it to surpass its pre-crisis quarterly highs from the first quarter of 2010, and to show a significant bounceback for the full year 2010 (+5% at ppp, and +4% at current exchange rates, after -2% in 2009). This was accompanied by a marked recovery in world trade (+14% by volume, after -12.4% in 2009), and a base effect of more than 2% (ppp) to start the year 2011. But the world economy is unlikely to avoid slowdown from 2011. The first reason for this is that the automatic recovery mechanisms (restocking, recovery in world trade, etc.) are rapidly losing impetus. Next, the massive recovery programmes implemented, based on fiscal measures or more directly on public investment, are coming to an end in most countries. Lastly, the overall recovery figures mask a range of different developments. The United States is a special case in this regard, and it should, at least in the short term, benefit from the budgetary measures decided in December 2010. Apart from the US, there are two major groups of countries, each group exposed to braking factors of different kinds and for different reasons. On the one hand, we have the developed countries. Their rebound from the crisis was generally modest, although slightly better than expected, and they remain most heavily affected by the crisis, with persistent capacity underutilisation, high levels of unemployment, household degearing yet to be completed, and, above all, significant efforts at budgetary consolidation to be carried out, especially in those European countries most caught up in the storm of the sovereign debt crisis. On the other hand, there are the emerging countries, where the upturn has generally remained sustained, thanks to dynamic domestic demand or thanks to higher world demand for commodities and energy. The emerging countries also face rising inflationary pressures, the early of signs of overheating and even excessively massive capital inflows, and all these factors should prolong the move – already begun in 2010 – towards monetary tightening and, in certain cases, budgetary tightening. In this environment, the world economic recovery posted in 2010 (+4%) is not expected to be followed by further acceleration in 2011 (+3.2%), although it should consolidate in 2012 (+3.3%). Developed country growth will not be as great, at +1.9% in 2011 and then at +2.5% in 2012. But the outlook for emerging country growth is better, at +5.5% in 2011 and +5.8% in 2012, with a fairly parallel picture for world trade growth, at +8% in 2011 and +9% in 2012, with even greater expansion in intra-regional trade.

World recovery was confirmed in 2010...

Three years after the onset of the financial crisis with the emergence of problems in the US mortgage market, and two years after the collapse of US investment bank Lehman Brothers plunged world interbank markets into the abrupt paralysis that sent the real economy of the planet into a record dive and to the brink of a Great Depression, the year 2010 will be remembered as the year of confirmation of global recovery. That recovery began tentatively in Q2 2009, before gradually accelerating in the second half of the year. It continued throughout 2010 in three major phases: first, peak acceleration in Q1 (at an annualised +6.4% qtr/qtr), helping to lift the quarterly volume of world GDP to above pre-crisis levels; second, slowdown to +4.6% in Q2 and then to +3.1% in Q3, reviving fears and risks of a double dip; and, third, gradual recovery in a large number of confidence indicators

Contribution to 2010 GDP growth

	Domestic demand	+	External impulse	= GDP
Canada	6.3%		-3.3%	3.0%
Sweden	5.1%		0.0%	5.2%
Norway	3.5%		-3.6%	-0.2%
USA	3.3%		-0.5%	2.9%
Finland	3.0%		0.0%	3.0%
Germany	2.7%		0.9%	3.6%
UK	2.1%		-0.7%	1.4%
Japan	2.0%		2.2%	4.2%
Denmark	2.0%		0.1%	2.1%
Switzerland	1.6%		1.0%	2.7%
France	1.5%		0.0%	1.5%
Belgium	1.2%		0.8%	2.0%
Italy	1.2%		-0.2%	1.0%
Netherlands	1.1%		0.6%	1.7%
Portugal	0.4%		1.1%	1.5%
Austria	-0.5%		2.4%	1.9%
Spain	-1.2%		1.0%	-0.2%
Ireland	-4.5%		4.1%	-0.4%
Greece	-7.5%		3.7%	-3.8%

Sources: IHS Global Insight, Euler Hermes forecasts

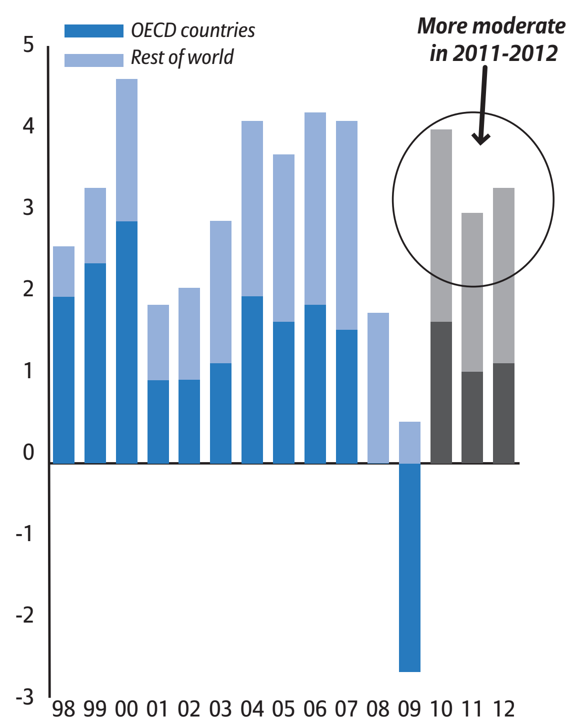
Inflation*

	2010	2011	2012
Greece	4.3%	2.0%	0.4%
UK	3.1%	2.3%	1.7%
Denmark	2.3%	2.0%	1.5%
Belgium	2.2%	1.9%	1.7%
Norway	2.2%	1.5%	1.8%
Austria	1.8%	1.9%	1.7%
Spain	1.7%	1.6%	1.2%
Italy	1.6%	1.5%	1.5%
Canada	1.6%	1.8%	1.6%
Euro zone	1.5%	1.5%	1.3%
France	1.4%	0.9%	1.2%
Portugal	1.4%	1.6%	1.2%
USA	1.5%	1.6%	1.4%
Sweden	1.2%	1.9%	2.0%
Finland	1.2%	1.9%	1.8%
Germany	1.1%	1.4%	1.3%
Netherlands	1.0%	1.3%	1.3%
Switzerland	0.6%	0.7%	1.0%
Japan	-0.6%	-0.2%	0.0%
Ireland	-0.8%	0.6%	0.9%

Sources: IHS Global Insight, Euler Hermes forecasts
*annual average, in %

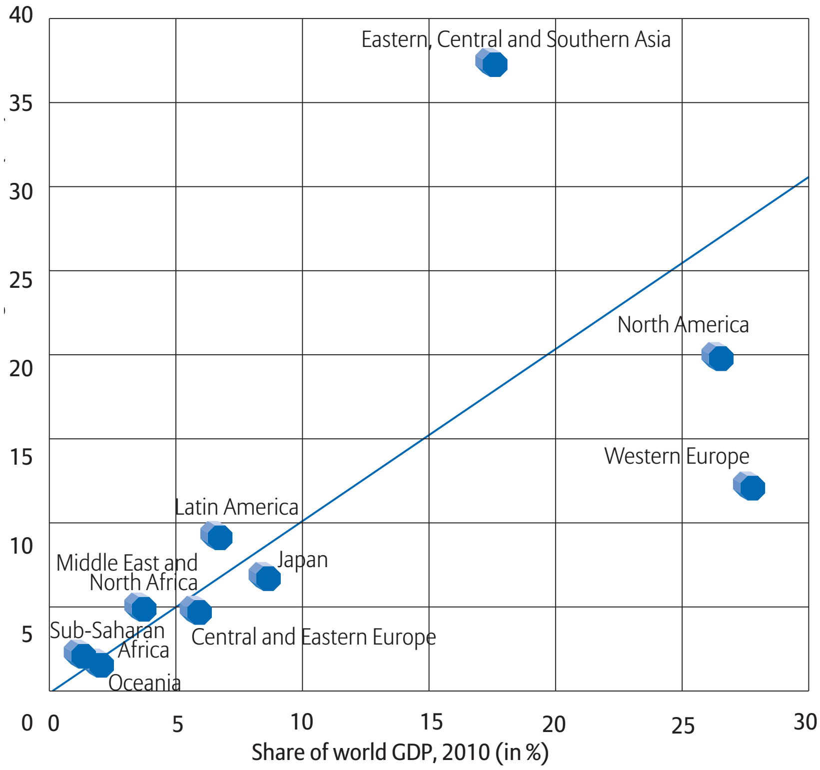
World economic growth

Annual average contribution to world growth, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Contributors to world economic growth, 2010



Sources: IHS Global Insight, Euler Hermes calculations and forecasts

Economic forecasts

Sources: IHS Global Insight, Euler Hermes forecasts (*) GDP 2009 weighing at current exchange rates Forecasts

GDP	Weighting (*)	2009	2010	2011	2012	03-10	06-10	09-10	12-10	03-11	06-11
World	100.0	-2.0%	4.0%	3.2%	3.3%						
USA	25.5	-2.6%	2.9%	2.8%	2.5%	0.9%	0.4%	0.6%	0.8%	0.8%	0.6%
Canada	2.4	-2.5%	3.0%	2.4%	2.8%	1.4%	0.6%	0.3%	0.9%	0.5%	0.5%
Japan	9.1	-6.3%	4.2%	0.9%	1.3%	1.7%	0.7%	1.1%	-0.6%	0.2%	0.3%
Euro zone	22.5	-4.0%	1.7%	1.3%	1.5%	0.4%	1.0%	0.4%	0.3%	0.2%	0.3%
Germany	6.0	-4.7%	3.6%	2.1%	1.6%	0.6%	2.3%	0.7%	0.6%	0.3%	0.3%
France	4.8	-2.5%	1.5%	1.3%	1.8%	0.2%	0.7%	0.4%	0.2%	0.3%	0.3%
Italy	3.8	-5.1%	1.0%	1.0%	1.1%	0.4%	0.5%	0.3%	-0.1%	0.4%	0.3%
Spain	2.6	-3.7%	-0.2%	0.5%	1.1%	0.1%	0.3%	0.0%	0.0%	0.0%	0.2%
Netherlands	1.4	-3.9%	1.7%	1.3%	1.6%	0.5%	0.9%	-0.1%	0.4%	0.3%	0.3%
Belgium	0.8	-2.7%	2.0%	1.5%	1.8%	0.1%	1.0%	0.4%	0.3%	0.3%	0.3%
Austria	0.7	-3.7%	1.9%	2.0%	2.0%	0.0%	1.2%	0.9%	0.6%	0.3%	0.3%
Finland	0.4	-8.1%	3.0%	2.6%	2.5%	0.1%	2.6%	0.5%	0.5%	0.6%	0.5%
Greece	0.6	-2.3%	-3.8%	-2.2%	0.9%	-0.6%	-1.7%	-1.3%	-0.3%	-0.8%	-0.2%
Ireland	0.4	-7.6%	-0.4%	0.9%	1.7%	2.1%	-1.0%	0.5%	0.6%	0.1%	0.3%
Portugal	0.4	-2.5%	1.5%	0.1%	0.9%	1.1%	0.2%	0.3%	-0.1%	-0.2%	0.1%
UK	3.9	-4.9%	1.4%	1.5%	1.9%	0.3%	1.1%	0.7%	-0.5%	0.5%	0.5%
Sweden	0.7	-5.3%	5.2%	3.4%	2.4%	1.7%	2.0%	2.1%	0.6%	0.5%	0.6%
Denmark	0.6	-5.2%	2.1%	1.7%	1.7%	0.6%	1.3%	0.7%	0.4%	0.3%	0.3%
Norway	0.7	-1.3%	-0.2%	1.6%	2.1%	0.5%	-0.2%	-1.6%	1.3%	0.7%	0.5%
Switzerland	0.9	-1.9%	2.7%	1.9%	2.1%	0.9%	0.8%	0.7%	0.5%	0.4%	0.4%
Central and Eastern Europe	6.4	-6.0%	3.5%	3.1%	3.5%						
Russia	2.4	-7.9%	3.6%	3.0%	3.3%						
Asia (excluding Japan)	18.6	5.8%	8.5%	7.1%	7.4%						
China	8.8	9.1%	10.0%	8.8%	8.8%						
India	2.2	7.4%	8.8%	8.5%	9.0%						
Latin America	7.0	-2.0%	5.7%	3.6%	3.8%						
Brazil	2.8	-0.6%	7.5%	4.3%	4.5%						
Middle East and Africa	2.2	1.4%	4.2%	4.3%	4.7%						

and economic soundings from autumn to the end of the year, offering reassurance on the sustainability of the recovery, at least in the short term, even though bad weather threatened temporarily to compromise – as in the United Kingdom – the figures for Q4 GDP growth. In total, world GDP growth amounted to 4% for the full year 2010 (after -2.1% in 2009), accompanied by a sharp recovery in all the major global indicators – e.g., world industrial output (+10% annually after -6% in 2009), world raw steel production (+15%, after -8% in 2009), world trade volume (+14%, after -12% in 2009), and commodity price indices (+14% in dollars for foods, +30% for Brent crude, +50% for the major metals, and 58% for agricultural commodities). At the same time, stock market prices rose by 21% in dollar terms, with a 19% increase in the developed countries and 35% increase in the emerging countries.

...but with sharp disparities

The overall performance figures mask some very different realities. In the developed countries, which account about 66% of world GDP, the upturn in activity (+2.6%) was generally much less dynamic. This upturn was particularly weak in Western Europe, despite a notable acceleration in the second quarter. There were strong differences between driver economies on the one hand, such as the United States (+2.8%), Canada (3%), Sweden (+5.2%) plus export-oriented driver economies like Japan (+4.2%) and Germany (+3.6%) – all with stronger growth – and, on the other hand, countries in protracted difficulties, generally concerning sovereign debt, such as Ireland and especially Greece, the latter of these two still in deep recession.

In emerging countries, however, growth has been generally more dynamic (+6.7%), particularly those in Asia (+8.5%), which benefited from the impetus of China (+10.3%) and from often bigger and more quickly implemented recovery plans.

There were also significant differences across regions, with growth of +3.5% in Central Europe (due to the weakness in neighbouring Western European countries), +4.2% in the Middle East and North Africa and +5.7% in Latin America (driven by the dynamic performance of Brazil [+7.5%] and by global demand for raw materials).

In other words, and despite the recovery, at the end of 2010 a large majority of countries had not yet returned to their pre-crisis levels of activity – overall and in terms of industrial output, retail sales or exports. Those countries that did manage to surpass their pre-crisis levels of activity – and these are in the minority – are for the most part in emerging Asia.

A small slowing in 2011, with many risks, but a still positive outlook for 2012

The year 2011 has begun with economic growth prospects that are once again positive but that also point to a small slowing in the world economy.

This should arise, in the first instance, from the slowdown generally expected in European countries and in Japan. Taken together, they accounted for nearly 39% of 2009 world GDP (at current exchange rates). The bounceback phase in their recovery failed to return them to their pre-crisis levels. In terms of industrial output, the 2010 upturn (by around 7% in the euro zone and 15% in Japan) saw them with still only modest output levels in Q4 2010 (equal to levels of mid-2005 for the euro zone and late 2003 for Japan), or well below their pre-crisis levels of mid-2008 (-8% in the euro zone and -14% in Japan), leaving their productive apparatus most often running at utilisation rates still below their long-term average, despite the halt in investment, and despite even the outright destruction of capacities at the height of the crisis. Nor did the upturn manage to initiate any genuine improvement on the employment front, which only just stabilised in Japan and Europe at the annual volumes of 2009 – volumes which themselves marked a fall of nearly 2%, perpetuating very high unemployment rates at more than 5% in Japan and at 10% overall for the euro zone. Moreover, the upturn was accompanied by only a very partial restoration in the balance sheets of economic agents, and most of those were non-financial businesses that had also quickly taken measures to adjust, leaving other businesses, households and especially governments all facing a large need for debt reduction. In this context, and despite the disparities among European countries – with a more promising situation for Germany (and its

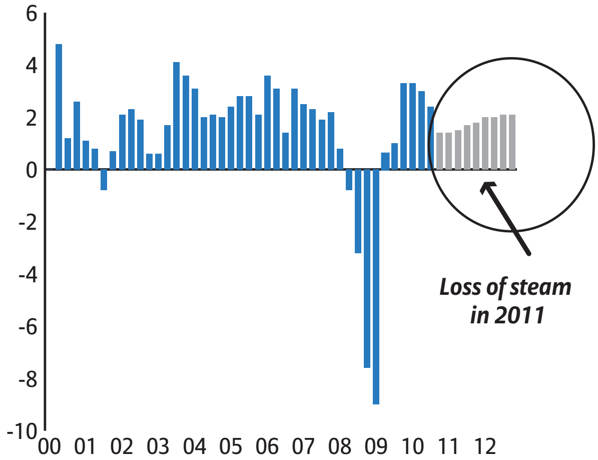
Unemployment rate*

	2009	2010	2011
Spain	18.0%	19.9%	19.6%
Ireland	17.1%	19.3%	18.8%
Greece	9.5%	12.4%	14.6%
Portugal	9.6%	10.7%	10.3%
France	9.5%	9.8%	9.7%
Euro zone	9.3%	9.8%	9.5%
USA	9.3%	9.6%	9.5%
Belgium	7.9%	8.6%	8.8%
Italy	7.8%	8.5%	8.5%
Sweden	8.4%	8.4%	7.9%
Finland	8.2%	8.3%	7.9%
Canada	8.3%	8.1%	7.9%
UK	7.7%	8.1%	8.4%
Germany	7.8%	7.4%	7.1%
Denmark	6.0%	7.3%	7.2%
Austria	7.2%	6.8%	6.6%
Netherlands	4.8%	5.5%	5.3%
Japan	5.2%	5.1%	4.8%
Switzerland	3.7%	3.9%	3.7%
Norway	3.2%	3.6%	3.5%

Sources: IHS Global Insight, Euler Hermes forecasts
**annual average, in %*

Industrialised countries GDP?growth

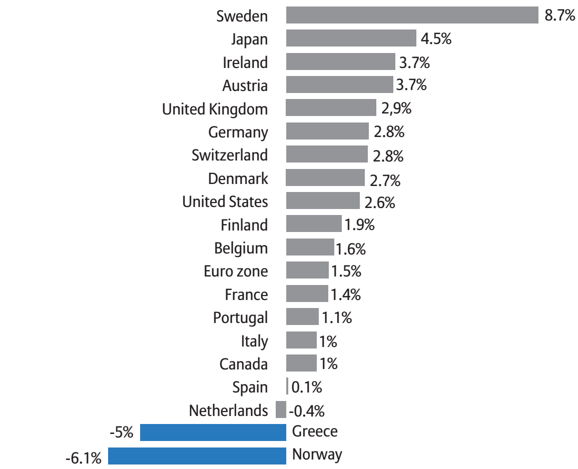
Annualised quarterly GDP growth (Q/Q-1), in %



Sources: National figures, IHS Global Insight, Euler Hermes forecasts

GDP growth

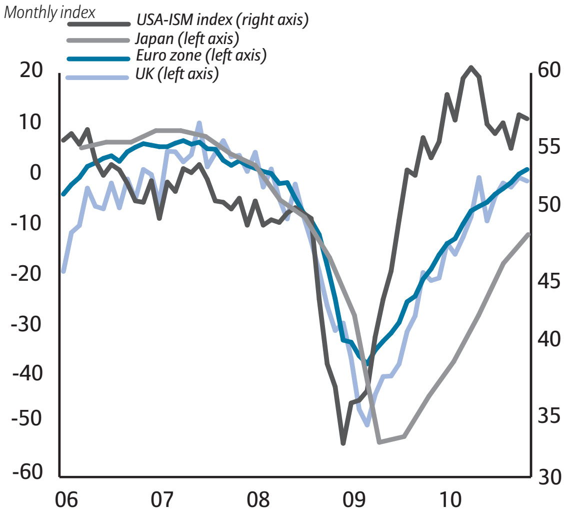
Q3 2010 - annualised rate (%)



Sources: National figures, IHS Global Insight

Industrial confidence

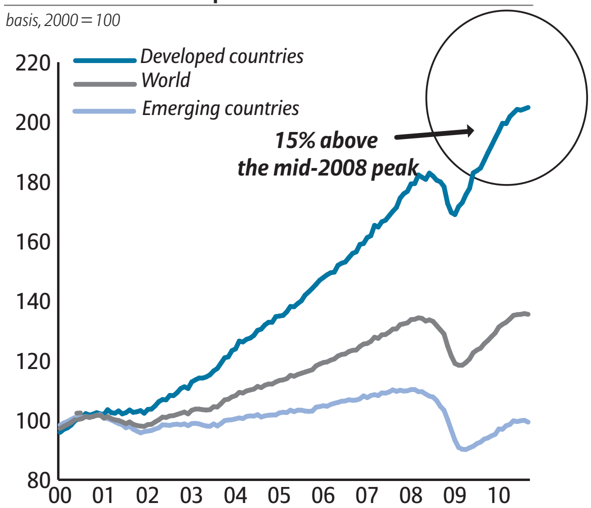
Monthly index



Sources: National figures, IHS Global Insight

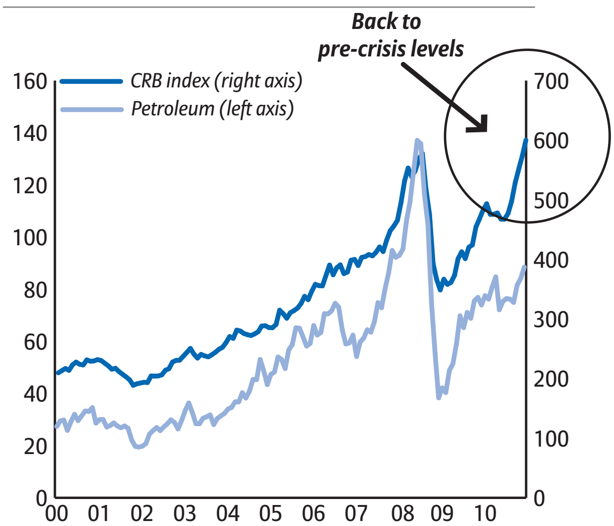
Index of industrial output

basis, 2000 = 100



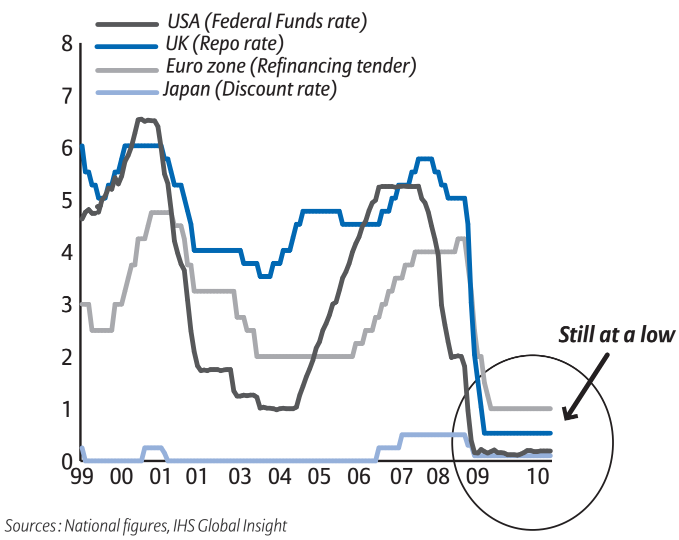
Source: CPB

Commodities



Sources : IHS Global Insight, Euler Hermes forecasts

Key interest rates

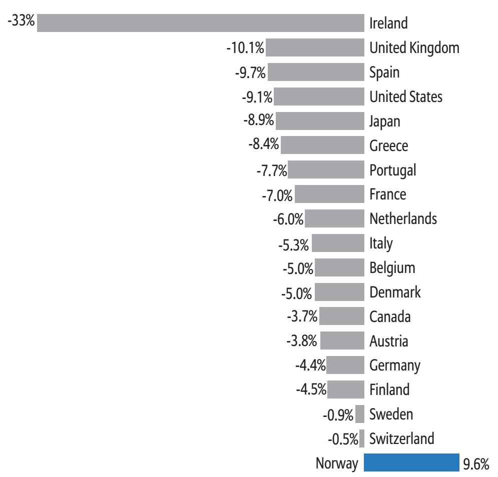


Sources : National figures, IHS Global Insight neighbours) and France, which still play the role of driving economic forces – growth in the region has barely any likelihood of accelerating. This is due to four factors that should limit recovery in domestic demand, thereby constituting a brake on growth for all of their partner countries both within and outside Europe. These include the end of technical bounceback factors (restocking); the surge in food commodity and energy inflation (eroding household purchasing power); the expiry of stimulus measures (budgetary measures such as public investment); and, above all, the impact of determined budgetary consolidation programmes decided after the outbreak of the sovereign debt crisis in spring 2010 when the reality of the situation and Greece's public finance problems became known. The austerity measures and their expected effects promise to be proportionately more severe in those countries where the loss of discipline in public finances has been more marked – and these are also those countries that have least benefited from the recovery phase, such as Spain, Greece, Ireland, Portugal and the United Kingdom.

On the other hand, the emerging countries, which together accounted for almost 35% of global GDP in 2009 (at current exchange rates), may not continue with growth rates as high as those seen in 2010 (+6.7% after +1.5% in 2009), which were achieved thanks to dynamic domestic demand and rising world commodity and energy demand. Their revival in activity has made them the main engine of world growth (accounting for almost 60% of its increase) and seen them overcome the effects of the crisis. At the end of 2010 (against the pre-crisis peaks of summer 2008) total emerging country industrial output was up by 16% and emerging country trade up by 8%. This was thanks foremost to emerging Asia (+26% for industrial output and +17% for trade) and also emerging Latin America (0% and +4% respectively). But this has also been accompanied by clear signs of overheating, including the start of wage pressures, which add to the inflationary pressures arising from the acceleration in food commodity and energy prices. This should only push authorities in these countries – albeit in different ways and at different speeds – to continue the policy tightening already initiated in 2010 on the monetary side with rate hikes in many countries (China, India, Brazil, Russia, and others), with likely effects both on exchange rates (tending to drive up their currencies and impact negatively on export competitiveness) and on foreign capital flows. In this context, the United States – which in the short term at least will benefit from the budgetary measures decided in December 2010 (*see pages 10 and 11*) – along with Africa and the Middle East should then be the main big exceptions to the slight slowdown in world GDP growth, to +3%, outlined for 2011 in our central forecast. This slowdown in world growth in 2011 will be in line with a slowdown in world trade growth to 8%. GDP growth in the OECD countries will slow from 2.6% in 2010 to 1.7% in 2011, but GDP growth the emerging countries will slow proportionately less, from 6.7% to 5.5%. This is not likely to diminish the risks and threats to the most vulnerable developed country economies, nor the sources of economic, commercial, financial or monetary pressures between states. But it should, in the absence of any exogenous (especially financial) shock, allow the various drivers of growth to continue to gradually come forward and to consolidate world growth at 3.3% in 2012. ▣ *ML*

Public deficit, 2010

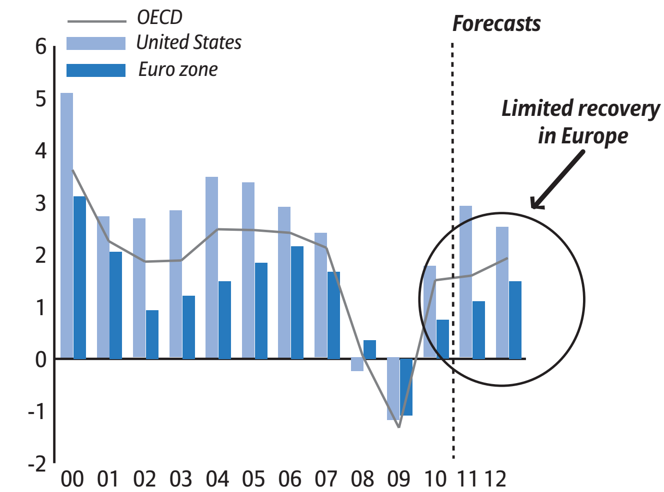
as % of GDP



Sources: National figures, IHS Global Insight, Euler Hermes forecasts

Consumption

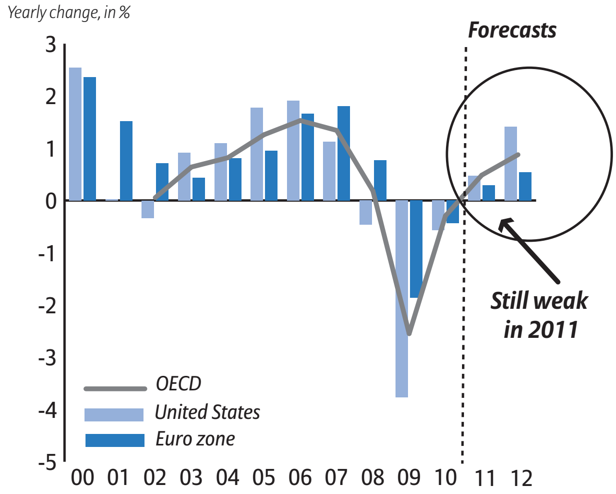
Yearly change, in %



Sources: National figures, IHS Global Insight, Euler Hermes forecasts

Employment

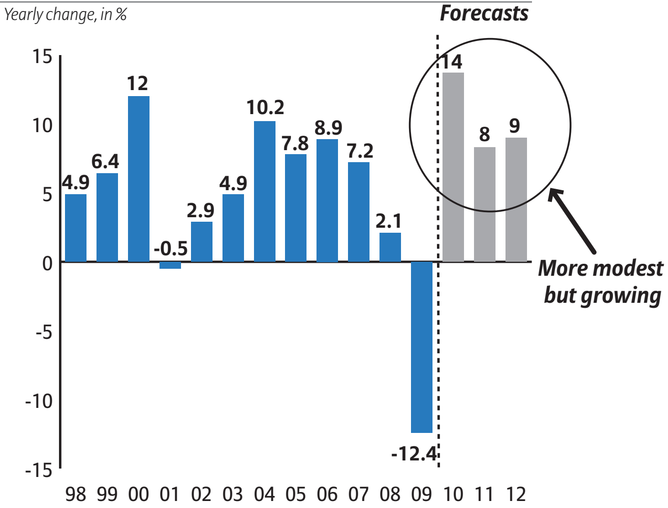
Yearly change, in %



Sources: National figures, IHS Global Insight, Euler Hermes forecasts

World trade in goods and services

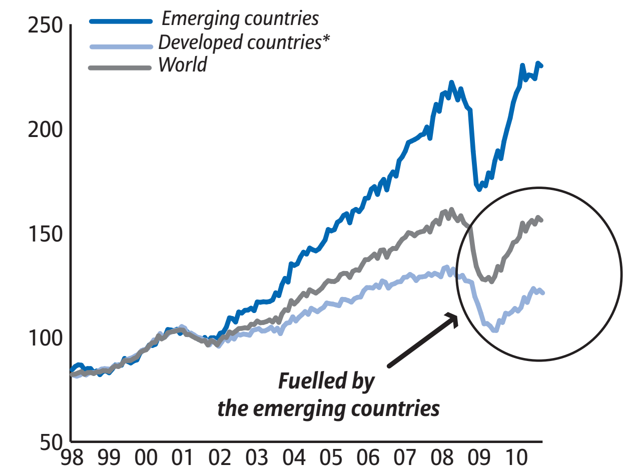
Yearly change, in %



Sources: National figures, IHS Global Insight, Euler Hermes forecasts

World imports

Basis, 2000 = 100

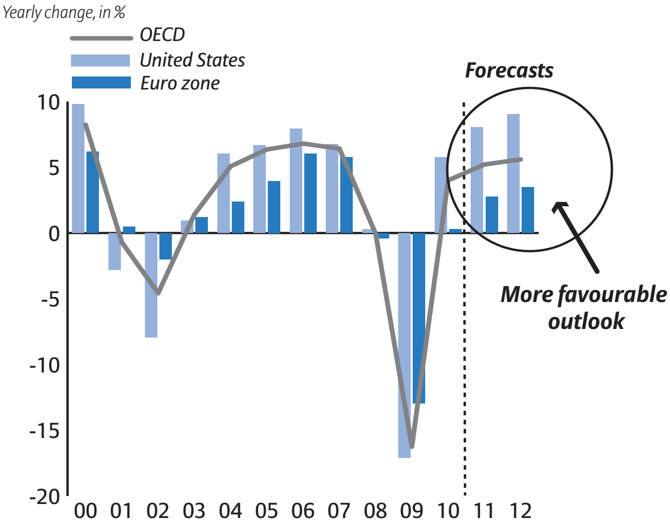


Sources: CPB

* OECD countries, excl. Turkey, Mexico, Korea and Central Europe countries

Investment

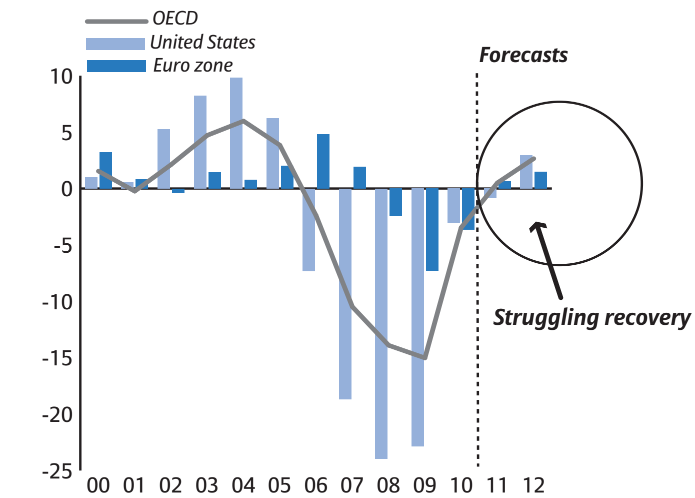
Yearly change, in %



Sources: National figures, IHS Global Insight, Euler Hermes forecasts

Construction

Yearly change, in %



Sources: National figures, IHS Global Insight, Euler Hermes forecasts

United States

Recovery strengthens

Overview

In 2010, the US economy recovered to above its pre-crisis levels, with GDP growth for the year of 2.9% (against -2.6% in 2009), thanks to a very good Q4 (an annualised +3.2% on initial estimates). Domestic demand (+3.3% for the year), was the main source of growth, with strength in all its components apart from construction investment. Net foreign trade played a very positive role in Q4, thanks in part to the Federal Reserve's Quantitative Easing 2 (QE2) that helped – via a depreciation in the dollar – to reduce the trade deficit. Overall, the signs for 2011 and 2012 are positive. The environment is more favourable to businesses since the mid-term elections (prolonging the tax cuts of the Bush era). Also, the record profits garnered during 2010 should be invested in a way that stimulates growth (recovery in employment and strengthening of consumption). Similarly, the new fiscal stimulus – in its Democratic-sponsored aspects (extending unemployment benefits) – should help consolidate the recovery by boosting consumption through household income.

Monetary policy: accommodating

Key rates remain unchanged in a range of 0-0.25%. But with inflation deemed to be low and a high unemployment rate in November, the Federal Reserve initiated a second round of quantitative easing (QE2), for purchasing $600 billion in Treasury bonds up to mid-2011, in order to reduce the cost of borrowing for private agents (by lowering long-term interest rates) and to encourage depreciation in the dollar (to increase competitiveness gains and boost foreign trade). These two effects actually occurred before confirmation of the measure, a sign that the market had clearly anticipated it. Since entering into force, the inflationary risk posed by QE2 has become the main concern of the markets: yields on 10-year Treasury bonds jumped from 2.4% in October to over 3% presently.

External sector: a temporary improvement?

The trade deficit shrank in the fourth quarter of 2010, thanks to rising exports and a sharp fall in imports. This development should be temporary, as it is explained by the impact of QE2. Anticipating QE2, market operators had favoured a fall in the dollar (with the effective exchange dropping by 5% between July and November 2010), and thus an improvement in export competitiveness. But this development appears to have been of short duration and the upward path of the dollar since November (1%) should curb this trend. The trade deficit is thus expected to increase once again.

Household demand: dynamic

Household demand firmed over 2010 (+1.8%) with a strong upturn in Q4 (+4.4%, annualised), despite a still high debt ratio. Aside from real estate investment (still faltering), the indicators (consumer confidence, retail sales, etc.) remain good. Also, demand fundamentals are tending to strengthen: e.g., the unemployment rate, which is oriented downwards although still at a high level (9.6% in December 2010 against 10% earlier in the year) and real wages, which continue to grow despite a slowdown in 2011. In this context, consumption should remain an essential driver of US growth.

Businesses: a favourable climate

Businesses in the US are the key factor in the growth to come. In 2010, they garnered record profits (+36% over the full year), which they have not reinvested, in part due to hesitancy over Obama administration policy. However, this situation seems to have changed, and the Democrats and Republicans have seemed to be converging towards the same goal: supporting growth through investment and job creation. Indicators confirm this dynamic, with the ISM manufacturing and industrial output measures improving. In this context, investment is expected to accelerate and maintain the momentum of emerging from the crisis via job creation.

Politics and budgets: prolonged stimulus

The political reality has altered since the mid-term elections of November 2010, in which Republicans won a majority in the House of Representatives and gained seats in the Senate. The budgetary direction has been revised to a degree, with agreement between both camps for a second fiscal stimulus, combining Democratic measures to extend unemployment benefits for the long-term jobless by 13 months and to lower employees' social security contributions with Republican measures to extend the Bush era tax cuts by two years. The aim is to consolidate the recovery, but the package also raises questions over the sustainability of US debt at a time when European countries are engaged in vast deficit reduction programmes, especially as US debt now stands at $14.3 trillion and should soon (in 2011) reach its authorised ceiling of $15.25 trillion. ▣ *DN*

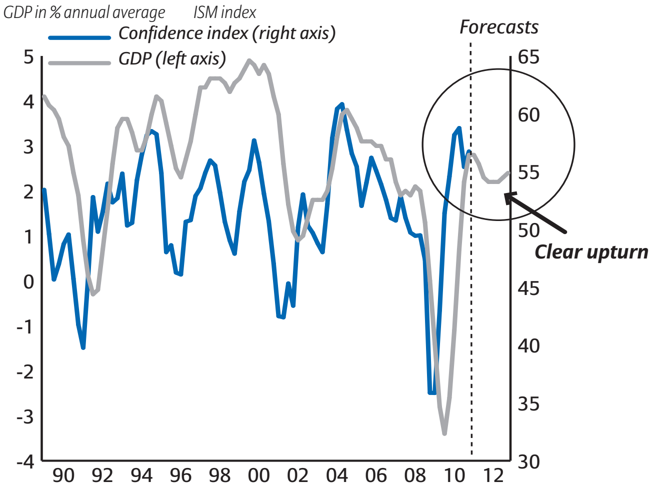
Election timetable

▶ **November 2012:** Presidential election and elections to the House Representatives and to a third of seats in the Senate

Executive and legislature

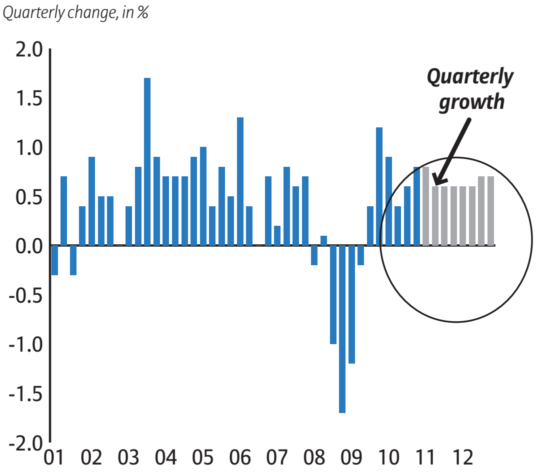
▶ **President:** Barack Obama
▶ **Senate** (100 seats): Democrats (51), Republicans (47), independents (2)
▶ **House of Representatives** (435 seats): Democrats (257) , Republicans (178)

Advanced indicator of the economy



Sources: IHS Global Insight, Euler Hermes forecasts

GDP



Sources: IHS Global Insight, Euler Hermes forecasts

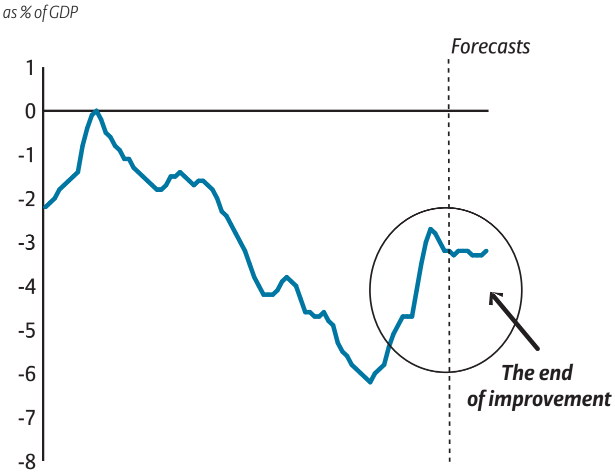
Trading partners

Country	Exports	Share of total
TOTAL	1,057	100%
of which, Euro zone	162	15.3%
Canada	205	19.4%
Mexico	129	12.2%
China	70	6.6%
Japan	51	4.8%
UK	46	4.3%

Country	Imports	Share of total
TOTAL	1,604	100%
of which, Euro zone	216	13.4%
China	310	19.3%
Canada	228	14.2%
Mexico	178	11.1%
Japan	98	6.1%
Germany	73	4.5%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** USD billions*
Forecasts
Sources : IHS Global Insight, Euler Hermes forecasts

UNITED STATES		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-2.6	2.9	2.8	2.5	0.9	0.4	0.6	0.8	0.8	0.6
Consumer spending		71%	-1.2	1.8	2.9	2.5	0.5	0.5	0.6	1.1	0.7	0.7
Public spending		20%	1.6	1.1	1.3	0.7	-0.4	1.0	1.0	-0.1	0.4	0.2
Investment		13%	-18.3	3.8	6.0	8.0	0.8	4.4	0.4	1.0	1.3	1.4
Construction		3%	-22.9	-3.0	-0.4	3.0	-3.2	5.9	-7.7	0.8	0.5	0.7
Equipment		10%	-17.1	5.5	7.5	9.0	1.9	4.0	2.4	1.1	1.5	1.5
Stocks	*	-1%	-0.4	1.4	-0.2	0.0	0.6	0.1	0.4	-0.9	0.2	0.0
Exports		12%	-9.5	11.7	7.4	8.2	2.7	2.2	1.6	2.1	1.8	1.7
Imports		14%	-13.8	12.6	6.5	9.5	2.7	7.5	4.0	-3.6	2.3	1.4
Net exports	*	-3%	1.1	-0.5	-0.1	-0.5	-0.1	-0.8	-0.4	0.8	-0.1	-0.1
Current account	**		-378	-473	-493	-509						
Current account (% of GDP)			-2.7	-3.2	-3.2	-3.2						
Employment			-3.8	-0.6	0.5	1.4						
Unemployment rate			9.3	9.6	9.5	8.7						
Wages			3.0	2.2	2.0	2.4						
Inflation			-0.1	1.5	1.6	1.4						
General government balance	**		-1471	-1334	-1357	-1161						
General government balance (% of GDP)			-10.4	-9.1	-8.9	-7.3						
Public debt (% of GDP)			87	94	100	103						
Nominal GDP	**		14,119	14,660	15,250	15,911						

Canada

Towards balanced growth?

Overview

At the end of 2010, Canadian activity had made up the ground lost in the crisis, with output up by 0.3% against the pre-crisis 2008 peak, and a higher growth rate than the +2.6% annual average of 2000 to 2007. The economy drew support from all components of domestic demand, and particularly from household consumption, which proved resilient during the crisis, and from government spending, whose multiplier effects accelerated economic recovery. On the foreign trade front, the performance was less brilliant. After serving as a shock absorber during the crisis (+0.9%), the impulse from net exports returned to negative territory for the year 2010, thereby returning to its pre-crisis pattern of negative GDP contributions since 2003. Despite this, the prospects remain strong for GDP growth for 2011 (+2.4%) and 2012 (+2.8%). Driven by domestic demand, the economy should return to growth rates close to pre-crisis figures. Consumption and investment are expected to more than compensate for the withdrawal of fiscal stimulus measures and should support growth.

Monetary policy: status quo

In the face of the strong revival in activity, the Bank of Canada decided to raise interest rates on three occasions over the course of 2010 (from 0.25% to 1%) in order to stifle inflationary pressures. The rate is still very low compared to its pre-crisis level (3%), and a further increase could come, should the tensions noted at the end of 2010 continue. The tone of the independent Monetary Policy Council was still favourable to maintaining the status quo after September 2010, and inflation should stabilise at below the Bank's 2% target over the forecasting horizon, notably due to excess capacities, and interest rates should remain low in order to support recovery.

External sector: a shock absorber or an engine?

After contributing to growth in 2009, net exports are negatively impacting on economic growth. This was the prevailing situation since 2003 and reflects Canada's declining export competitiveness with its main trading partners, particularly the United States, which accounts for more than 70% of its exports. These disappointing results are explained by the strength of the Canadian dollar in recent years, and also by the increase in unit labour costs due to higher wages and a fall in productivity. This damaging dynamic for the Canadian economy should ease gradually with the slowing of household consumption in 2011 and a deceleration in unit labour costs arising from increased productivity, thanks to public investment in R&D and in infrastructure.

Household demand: solid despite a slowdown

The withdrawal of budgetary stimuli, the new fiscal measures taken in order to reduce the public deficit (cutting the civil service payroll) and weak recovery in consumer credit should all weigh on household budgets in 2011. In this environment, consumer purchasing power is expected to slow to a degree, impacting on consumer spending. In 2012, the economy should move towards more balanced growth, with a rebalancing of the drivers of growth (consumption, investment and foreign trade), with consumption likely to strengthen thanks to continued recovery in employment, for the third consecutive year.

Businesses: sustained recovery

The resilience of domestic markets (consumer demand) and the particularly strong financial health of Canadian businesses (for which the number of officially recorded insolvencies fell again in 2010) helped investment to recover rapidly in 2010 (and partly automatically, given the magnitude of its drop in 2009). The investment outlook for 2011 and 2012 is good, as suggested by the improved figures shown by the Bank of Canada's Survey of Investment Intentions, and by the rise in lending to non-financial companies.

Politics and budgets: cutting the deficit

At a time when the fundamentals have improved, the government is engaged in a strategy of cutting the deficit. The first phase will be the withdrawal of stimulus measures in 2011. bringing a technical reduction in the deficit. The second phase will be a return to equilibrium through limitations on public expenditure. Compared to the case of the euro zone, this objective is less of an issue: restoring the Canadian economy is a greater priority than the consolidation of public finances. In this context, the adjustments will be made gradually and should manage to cut the deficit by half by 2012, as anticipated in the Canadian government. ▣ *MI*

Election timetable

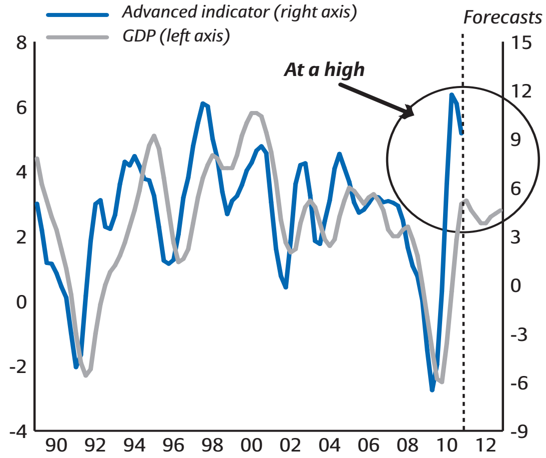
► **2011**: legislative elections

Executive and legislature

► **Governor General**: Michaëlle Jean (since 2005)
► **Prime Minister**: Stephen Harper (since 2006)
► **House of Commons** (308 seats): Conservative Party (144), Liberal Party (77), New Democratic Party (37), Bloc Québecois (48), Independent (2)

Advanced indicator of the economy

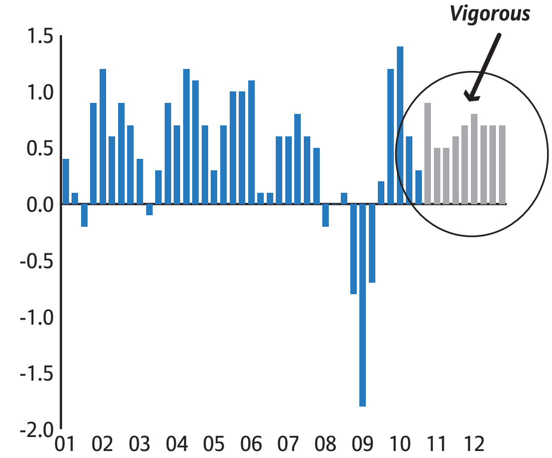
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

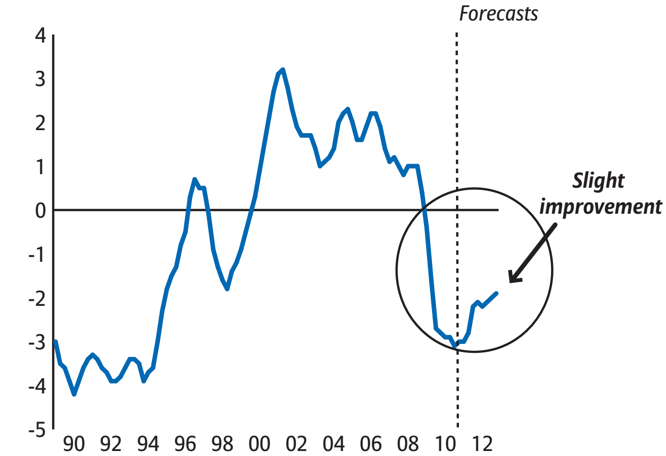
Country	Exports	Share of total
TOTAL	316	100%
of which, Euro zone	162	51.4%
USA	237	75.0%
UK	11	3.4%
China	10	3.1%
Japan	7	2.3%
Mexico	4	1.3%

Country	Imports	Share of total
TOTAL	353	100%
of which, Euro zone	29	8.3%
USA	180	51.1%
China	38	10.9%
Mexico	16	4.6%
Japan	12	3.4%
Germany	10	2.9%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** CAD billions* — Forecasts
Sources: IHS Global Insight, Euler Hermes forecasts

CANADA		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-2.5	3.0	2.4	2.8	1.4	0.6	0.3	0.9	0.5	0.5
Consumer spending		63%	0.4	3.3	2.3	2.6	1.0	0.6	0.9	0.5	0.6	0.6
Public spending		25%	5.1	4.0	0.4	-0.3	0.2	0.6	0.2	0.3	0.0	0.0
Investment		18%	-16.0	6.8	3.5	2.8	3.5	2.4	2.3	0.6	0.5	0.5
Construction		10%	-13.8	4.1	1.5	2.0	3.2	0.2	0.3	0.3	0.3	0.5
Equipment		8%	-18.9	10.4	6.1	3.7	3.9	5.2	4.8	1.0	0.8	0.6
Stocks	*	0%	-1.5	1.9	0.3	0.0	0.5	1.1	0.3	-0.2	0.0	0.0
Exports		32%	-14.2	5.7	3.5	5.8	2.4	1.4	-1.3	1.3	1.0	1.1
Imports		39%	-13.9	13.3	4.0	2.8	3.1	4.6	1.6	0.7	0.6	0.6
Net exports	*	-6%	0.9	-3.3	-0.6	0.7	-0.5	-1.4	-1.1	0.1	0.0	0.1
Current account	**		-44	-49	-36	-34						
Current account (% of GDP)			-2.8	-3.0	-2.1	-1.9						
Employment			-1.6	1.7	1.4	1.6						
Unemployment rate			8.3	8.1	7.9	7.3						
Wages			1.6	3.5	3.2	3.4						
Inflation			0.3	1.6	1.8	1.6						
General government balance	**		-78	-73	-61	-36						
General government balance (% of GDP)			-5.1	-4.5	-3.6	-2.0						
Public debt (% of GDP)			83	85	86	83						
Nominal GDP	**		1,527	1,621	1,696	1,787						

Japan

Strong recovery, but lacking steam already

Overview

The Japanese economy has experienced one of the OECD's strongest recoveries in GDP since the low point of the global crisis (+7.5% between Q1 2009 and Q3 2010) and probably also for the full year 2010 (+4.2% despite a negative fourth quarter). This performance, however, is not the whole story. It comes after a severe recession (-6.3% in 2009, after revision), which leaves Japanese GDP still far below its pre-crisis peak (-3.4% at the end of September 2010). Moreover, Japanese exports, which were a key driver of the economy's recovery, could lose steam in the wake of slowing world demand and the strengthening of the yen. The same goes for domestic demand, despite the start of improvements on the employment front, with the winding down of government support measures, which for their part have taken public debt to nearly 200% of GDP, and, more fundamentally, with the persistence of deflationary pressures and the country's problematic demographics. For 2011 and 2012, GDP growth should be much closer to its potential, at +0.9% and +1.3% respectively.

Monetary policy: battling against deflation

Despite a slight upturn over the past few months, average annual inflation remained firmly anchored in negative territory in 2010 – both overall inflation (-0.6%) and underlying inflation (-1.3%). This is likely to remain the major concern of the Bank of Japan, given that the winding down of deflationary pressures promises to be only gradual and moderate until 2012. Monetary policy should remain durably very accommodating, with the key interest rate held to the low level of 0% to 0.1% in place since the end of 2008, and with a set of unconventional measures including the Bank's 5 trillion yen financial asset purchase scheme adopted in October 2010.

External sector: indispensable to growth

Exports staged a recovery that was rapid (in Q2 2009) and sustained (+47% after six quarters), although they have yet to return to their pre-crisis peak (-7% by volume against Q1 2008), due to the plunge in sales in winter 2008-2009. Export growth should ease in 2011 with the expected slowing in external demand, including that from Japan's emerging country neighbours, and with the appreciation in the yen, which gradually returned to highs against the euro in late 2010 (after +12% on average over the year) and against the dollar (+6.6%). In 2011, the growth impulse from the sector will remain positive, with domestic demand containing the level of imports, but it will be more modest than in 2010.

Household demand: fuelled by government measures

Household consumption expenditure posted a welcome upturn in 2010, but this was largely stimulated by government measures, particularly incentives for new car purchases and for more energy efficient, less polluting household appliances. Despite improvements in confidence indicators, the end of such incentives and the prospects of weak recovery in the employment market and wages should only limit the uptrend in consumption, whose potential also diminishes by the year due to demographic changes.

Businesses: braked by capacity surpluses and the yen exchange rate

The recovery in activity and businesses' own adjustment efforts have brought outright improvements in operating profits and a fall in insolvencies. Coupled with good financing conditions, this facilitates a revival in investment and employment. However, this will come at best only very gradually, inasmuch as the recovery has only partially made up for the loss of activity suffered during the crisis (at the end of 2010, industrial output was still at its level of early 2003). Recovery thus confronts still considerable excess capacity, and has not yet spread to all parts of the economy (construction), while the stronger yen could favour offshoring.

Politics and budgets: political uncertainties

The government led by Prime Minister Naoto Kan, in office since June 8, 2010, has already adopted two recovery plans (totalling more than 1% of GDP), as well as consolidation measures in the framework of budget management strategy to the year 2020 – a strategy that will not prevent public borrowings, for the most part from Japanese creditors, to continue worsening in the short to medium term. The government's proposals and policies – which have already led to losses for the Prime Minister's DPJ party in the July 2010 elections to the House of Councilors – are highly contentious: the Prime Minister faces massive unpopularity that only strengthens the opposition's determination to both block discussion and voting on the next budget and to bring about new elections. ▣ *ML*

Election timetable

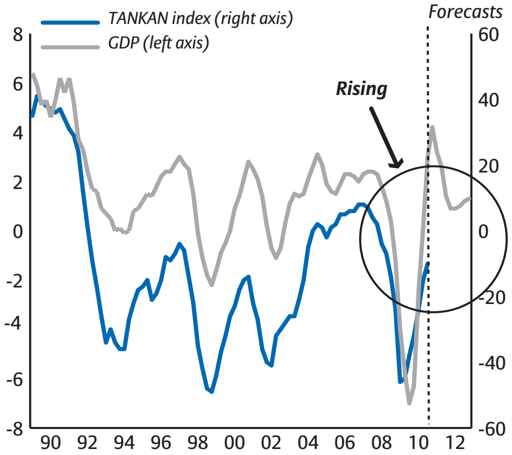
► **2013**: elections to the House of Representatives
► **2016**: elections to half of the seats in the House of Councillors

Executive and legislature

► **Empire, Head of State**: Emperor Akihito (since 1989)
► **Prime Minister**: Naoto Kan (from June 2010)
► **House of Representatives** (Shugi-in, 480 seats): Democratic Party of Japan (DPJ, 308 seats), Social Democratic Party (SDP, 7), People's New Party (PNP, 3), Liberal Democratic Party (LDP conservatives, 119), New Komeito Buddhist conservatives (NKP, 21), Japanese Communist Party (JCP, 9), others (13)
► **House of Councillors** (Sangi-in, 242 seats): DPJ (106), LDP (84), New Komeito Buddhist conservatives (NKP, 19), others (22)

Advanced indicator of the economy

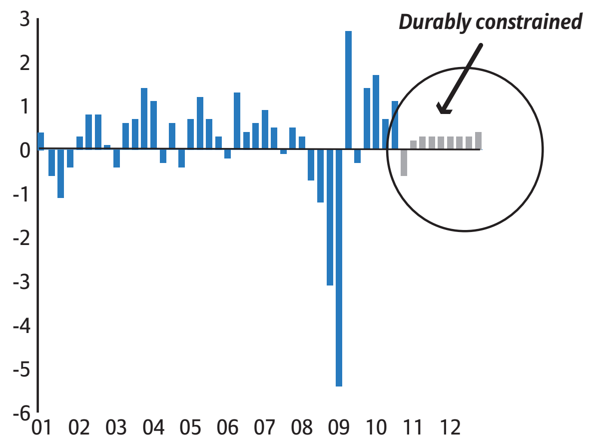
GDP in % annual average *Advanced indicator*



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

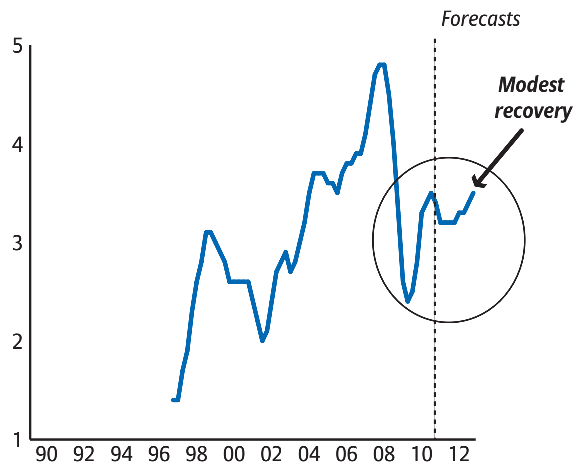
Country	Exports	Share of total
TOTAL	582	100%
of which, Euro zone	53	9.1%
China	110	18.9%
USA	95	16.4%
South Korea	47	8.1%
Hong Kong	32	5.5%
Thailand	22	3.8%

Country	Imports	Share of total
TOTAL	552	100%
of which, Euro zone	47	8.6%
China	123	22.2%
USA	60	11.0%
Australia	35	6.3%
Saudi Arabia	29	5.3%
U.A.E.	23	4.1%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** YEN trillions*
Sources: IHS Global Insight, Euler Hermes forecasts

Forecasts

JAPAN		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-6.3	4.2	0.9	1.3	1.7	0.7	1.1	-0.6	0.2	0.3
Consumer spending		58%	-2.0	2.0	0.3	0.8	0.6	0.3	1.2	-1.2	0.3	0.2
Public spending		23%	4.3	1.5	0.5	0.1	-0.5	0.3	0.0	0.2	0.2	0.1
Investment		16%	-15.8	0.6	2.7	2.7	1.0	2.0	1.3	0.2	0.4	0.8
Construction		2%	-10.1	-8.8	1.8	4.2	1.7	-2.0	0.9	0.2	0.5	0.7
Equipment		14%	-16.7	2.3	2.9	2.5	0.9	2.7	1.3	0.2	0.4	0.8
Stocks	*	-1%	-1.1	0.3	0.0	0.0	0.6	-0.2	0.2	0.0	0.0	0.0
Exports		13%	-24.2	25.3	5.4	6.3	7.2	5.6	2.5	0.5	0.5	1.0
Imports		10%	-15.4	10.4	5.9	5.8	3.2	4.2	3.0	0.8	0.8	1.2
Net exports	*	3%	-2.2	2.2	0.2	0.4	0.7	0.4	0.1	0.0	0.0	0.0
Current account	**		13	16	15	17						
Current account (% of GDP)			2.8	3.4	3.2	3.5						
Employment			-1.8	0.0	0.4	0.1						
Unemployment rate			5.2	5.1	4.8	4.7						
Wages			-2.6	-1.3	0.5	0.8						
Inflation			-1.5	-0.6	-0.2	0.0						
General government balance	**		-33	-43	-40	-38						
General government balance (% of GDP)			-7.1	-8.9	-8.3	-7.9						
Public debt (% of GDP)			185	192	200	205						
Nominal GDP	**		471	481	482	487						

Euro zone

The recovery consolidates, although with difficulty and unevenly

Overview

The euro zone confirmed its exit from recession in 2010 but lost steam in Q3 (+0.4% after 1% in H1), with no improvement in Q4 despite often improved indicators and sentiment. The recovery in activity has not been great enough to return to pre-crisis quarterly GDP levels (-3% from the peak of Q1 2008), and annual growth was in the end moderate (+1.7%) compared to OECD countries and compared with the zone's own past performances (+2.1% on average between 1995 and 2008). More to the point, the prospects are not so good for 2011 (+1.3%) and 2012 (+1.5%), due to restocking effects easing, the end of budget stimuli, the increase in budget consolidation measures, and the deceleration in world trade, especially given that household spending will continue to be constrained (by employment, wages, and inflation) and given that businesses will act with caution and spend only when strictly necessary. Moreover, the overall euro zone growth figure masks significantly different situations among the various member countries, with, in particular, a marked rebound in Germany and a noticeable one in France (indeed, were we to take these two countries out of the calculations, the euro zone would show a smaller recovery in 2010 (+0.6%) following a bigger recession (-4.3%) in 2009. Also, a number of countries remain in a fragile situation, notably Spain, Portugal, Ireland and, especially, Greece – the latter in prolonged recession and at the heart of tensions over sovereign debt.

Monetary policy: monitoring inflation

The rise in energy, commodity and food prices, especially in H2 2010, has gradually taken overall inflation to just above the 2% target of the European Central Bank (ECB) and altered the dialogue of the Bank, which needs to contain inflationary expectations. However, the inflationary dangers should be limited on the domestic front (high unemployment, wage moderation and growth prospects) and are not enough to push the ECB into ending the present status quo, a move that would bear its own share of risks – in terms of the credit market and the banking system, both of these still fragile and exposed to sovereign debt risks.

External sector: slowdown in exports on the horizon

After strong growth in 2010 (+10% by volume, following -13% in 2009), which helped to boost industrial activity, exports will continue to underpin recovery in 2012, although their pace of growth should ease considerably with the slowing in world trade. The impact of this will be different in different countries. The net growth impulse from foreign trade, however, will continue to improve and will become slightly positive in 2011, due to an accompanying easing in imports, for its part related to developments in domestic demand and in inventories.

Household demand: improved confidence is not enough

In the wake of recovery that has helped to stop net job destruction, the rise in consumer confidence indicators, generally to above their long-term average at the end of 2010, should help to reduce the propensity for precautionary savings. Household demand, however, should rise only moderately (+1.1% in 2011, against 2% on annual average between 1995 and 2008), limited by low wage gains and persistent very high levels of unemployment, the entry into force of tax measures aimed at budgetary consolidation, and an at least temporary surge in inflation.

Businesses: partially recovered, but cautious

The revival in business activity was confirmed throughout 2010, at least in industry and services, facilitating the restoration of profit margins and financing capacities. Construction, however, remains far behind, with new building permits at just half their 2006 peak. The outlook on demand, order books and surveys of business sentiment (PMI) point to continued recovery, but at rates that differ considerably from country to country and are overall too moderate either to quickly soak up the excess capacities still present at the end of 2010 or to accelerate employment and investment, which will come more in the shape of productivity investment than capacity investment.

Politics and budgets: high tensions

Estonia became the 17th member if the euro zone at the start of 2011, but the zone has still to finish overcoming the difficulties arising from its deteriorated public finances. The urgent task is to avoid any spread of the sovereign debt crisis that began in Greece and Ireland and also threatened to Portugal and Spain. The markets need to be reassured on the European Stability Mechanism (ESM), which, from 2013 will take over from the European Financial Stability Facility, established by the EU in May 2010 with IMF support and activated at the end of 2010 to assist Ireland. ▣ *ML*

Election timetable

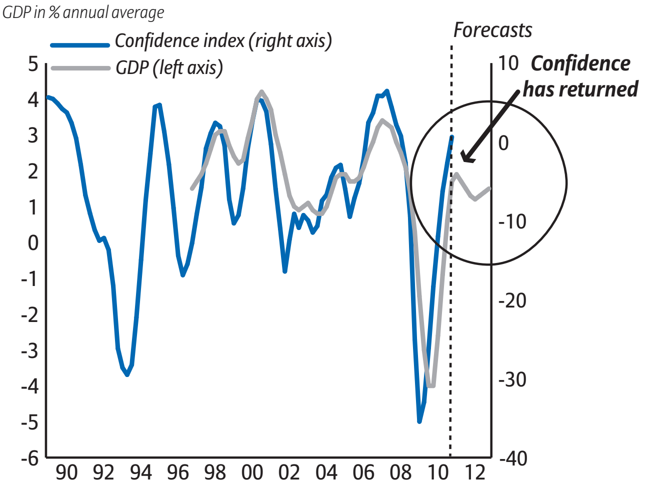
- ► 1st half of 2011, Hungary
- ► 1st half of 2010, Denmark
- ► 2nd half of 2011, Poland

Executive and legislature

- ► **European Council**: President, Herman Van Rumpuy
- ► **European Commission**: José Manuel Durao Barroso (Portugal), President
- ► **European Parliament** – 736 seats: European People's Party-European Democrats(EPP-ED), 265 seats; Party of European Socialists (PES), 161; Alliance of Liberals and Democrats for Europe (ALDE), 84; Greens, 55; Union for a Europe of Nations (UEN), 35; European United Left/Nordic Green Left (EUL/NGL), 35; Independence/Democracy Group (IND/DEM), 18; Non-attached (NA), 27

Advanced indicator of the economy

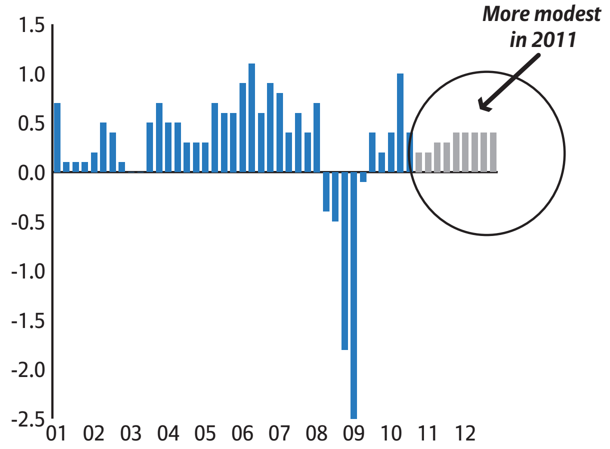
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

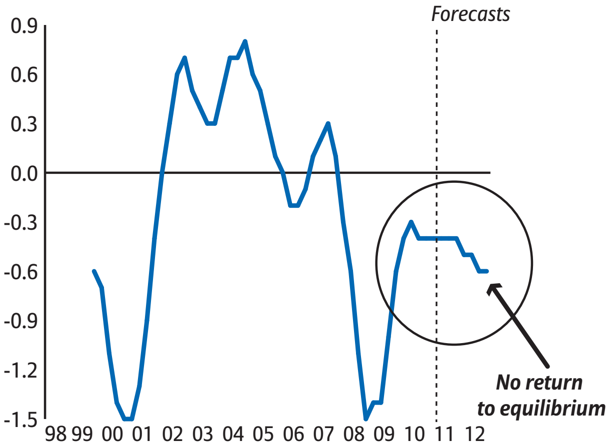
Country	Exports	Share of total
Total	3,523	100%
EU-27	2,317	65.8%
EU-15	2,078	59.0%
Euro zone	1,734	49.2%
Asia	298	8.4%
North America	232	6.6%
of which, USA	211	6.0%

Country	Imports	Share of total
Total	3,434	100%
EU-27	2,200	64.1%
EU-15	1,980	57.7%
Euro zone	1,692	49.3%
Asia	420	12.2%
North America	176	5.1%
of which, USA	162	4.7%%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** euro billions* — Forecasts
Sources: IHS Global Insight, Euler Hermes forecasts

EURO ZONE		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-4.0	1.7	1.3	1.5	0.4	1.0	0.4	0.3	0.2	0.3
Consumer spending		58%	-1.1	0.7	1.1	1.5	0.3	0.2	0.3	0.2	0.2	0.3
Public spending		22%	2.4	0.7	0.0	-0.2	0.1	0.1	0.4	0.1	-0.2	-0.1
Investment		20%	-11.3	-0.9	1.9	2.6	-0.3	1.7	0.0	0.4	0.4	0.4
Construction		6%	-7.3	-3.6	0.7	1.5	-1.8	1.3	0.0	0.0	0.1	0.1
Equipment		14%	-13.0	0.3	3.0	3.6	1.2	2.9	-0.2	0.7	0.8	0.8
Stocks	*	-1%	-0.7	1.3	-0.2	0.1	0.9	0.4	0.0	-0.3	0.0	0.0
Exports		41%	-13.0	9.8	5.7	5.2	2.6	4.3	1.9	1.2	1.0	1.1
Imports		40%	-11.8	10.2	5.4	5.2	4.3	4.2	1.7	1.3	0.9	1.0
Net exports	*	1%	-0.7	-0.1	0.1	0.1	-0.6	0.1	0.1	0.0	0.1	0.0
Current account	**		-51	-34	-41	-62						
Current account (% of GDP)			-0.6	-0.4	-0.4	-0.6						
Employment			-1.9	-0.4	0.3	0.5						
Unemployment rate			9.3	9.8	9.5	9.1						
Wages			2.5	1.8	1.7	2.0						
Inflation			0.3	1.5	1.5	1.3						
General government balance	**		-552	-573	-438	-346						
General government balance (% of GDP)			-6.2	-6.2	-4.6	-3.6						
Public debt (% of GDP)			80	84	86	88						
Nominal GDP	**		8,952	9,188	9,445	9,711						

Germany

Strong recovery despite a difficult European economic environment

Overview

Germany experienced a strong recovery in 2010, emerging faster than expected from its worst recession since the Second World War (-4.7% in 2009), but still not returning to pre-crisis quarterly growth levels. This sharp recovery, coming despite a difficult economic situation in Europe, relied primarily on the strong upturn of growth in external demand (driven in particular by Asia) and also on a revival in investment expenditure and household consumption. After record but exceptional acceleration in Q2 (+2.3% qtr/qtr), GDP growth remained robust in Q3 (+0.7%) and to the end of 2010, posting a yearly performance unmatched since reunification (+3.6%), with the prospect of continued growth in 2012. The pace of expansion will continue to exceed that of the euro zone and assist a rapid recovery in public finances, but it promises to be a lower +2.1% in 2011 and +1.6% in 2012, inasmuch as growth in domestic demand, while significant, may only partly offset the effects of the slowing in external demand.

External sector: the boom continues

Exports have continuously strengthened since they began to rebound in Q3 2009, producing a vital growth impulse from Q4 2009 (1.9 percentage points of GDP) and since then steadily boosting GDP, at the end of 2010 returning to their pre-crisis quarterly levels with a rise of more than 14% by volume over the full year, and with goods alone growing by value by around 19%. The performance has benefited every major industry and has been due in particular to the strong demand from outside the EU (+26% in value), including a surge in exports to China (almost +50% by value, marking a near doubling of China's share in total German exports in the space of three years). The net foreign trade contribution to growth was again strongly positive in 2010 (around 1 percentage point or nearly a quarter of GDP growth), but this should decline by 2012 under the combined impact of moderating global demand and rising domestic demand.

Consumer demand rising

After climbing by 0.2% and 0.6% in Q1 and Q2, thus helping to buoy the economy, consumer spending continued to recover, rising by 0.4% in Q3. With real income rising steadily thanks to very favourable trends in the labour market as well as reduced levies, consumer spending looks set to remain on its upward trajectory. Even so, it will expand by only a muted 0.4% in 2010, although it should be noted that this average understates the actual situation given the statistical shortfall of 0.5% at the beginning of the year. We forecast an increase of 1.3% for 2011, and a further 1.2% in 2012.

Household demand: revival

Household consumption gave clear support to the economy throughout 2010, rising over four consecutive quarters and posting moderate 0.4% recovery on annual average, following on from a sharp fall in Q3 2009, and with a more noticeable 1.5% yr/yr gain in Q4. Although reined back by several factors (budgetary, demographic, etc.) the trend is expected to be confirmed in 2011-2012. With consumer confidence already back to historically high levels at the end of 2010, the continued recovery in employment (already at a record level of over 40.3 million persons at the end of 2010, after showing notable resilience during the crisis), likely salary increases, and an environment of controlled inflation should again increase consumer purchasing power.

Businesses: recovery is spreading

The upturn in activity begun in mid-2009 was confirmed in 2010. The recovery in industrial output (+10%) and in productive capacity utilisation (11 percentage points in 12 months) were sufficient (although still at levels below pre-crisis peaks) to allow a clear increase in productive investment expenditure, in the end the main engine of growth. This should continue in 2011, given the outlook, given financial conditions and given the upturn in profits. But the pace of investment growth will be too modest to offset the violent contraction posted during the crisis. Construction expenditure generally rose over the year, despite quarterly jolts seen during the harsh winter of 2009-2010, but it could suffer from 2011 from the expiry of government stimulus measures.

Politics and budgets: the financial situation is improving

The recovery in growth and employment – and spending cuts – have helped to contain the budget deficit in 2010, which should prove lower than initial forecasts. after the deterioration recorded for 2009 (-3%). The rehabilitation of public finances through spending cuts remains nonetheless a clear priority for the government: its consolidation programme (*Zukunftspaket*) implemented in 2011, for a total of 80 billion euros in deficit reductions over four years, augurs ill for growth but should take the 2011 deficit to below 3% of GDP, limiting the rise in public debt to around 76% of GDP at the end of 2012.
▣ *RG*

Election timetable

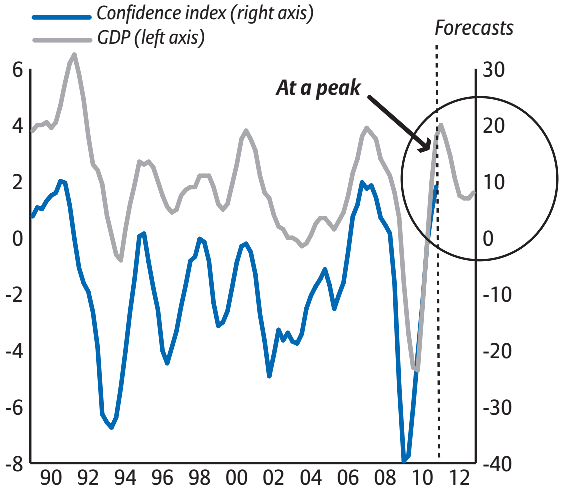
► **2011** : seven state elections
► **Autumn 2013:** legislative elections

Executive and legislature

► **Federal Republic**
► **Federal President:** Christian Wulff (CDU)
► **Chancellor:** Angela Merkel (CDU), heading CDU-CSU-FDP coalition
► **Bundestag** (622 seats): CDU-CSU (239), FDP (93), SPD (146), Die Linkspartei (76), Greens (68).

Advanced indicator of the economy

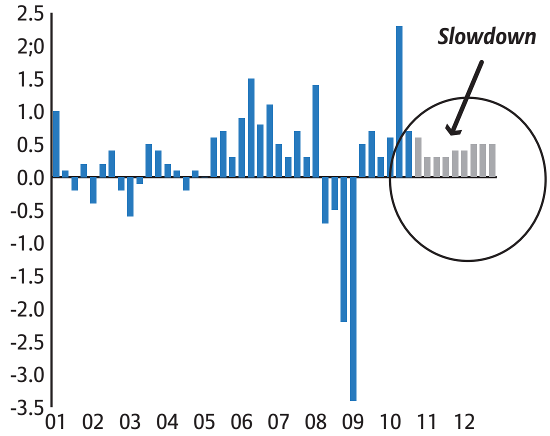
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

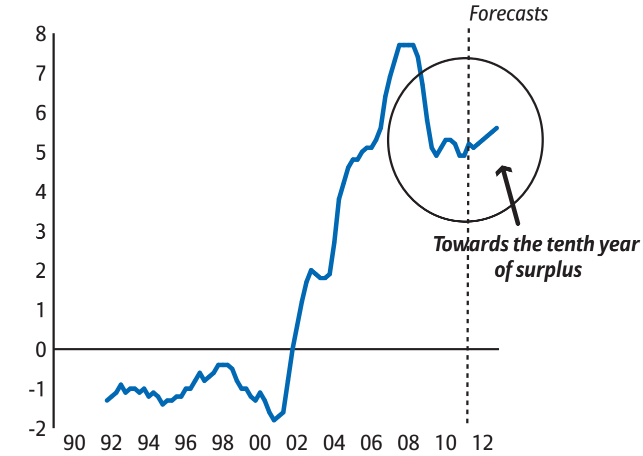
Country	Exports	Share of total
TOTAL	1,122	100.0%
of which, Euro zone	470	41.9%
France	114	10.1%
USA	75	6.7%
Netherlands	75	6.6%
UK	74	6.6%
Italy	71	6.3%

Country	Imports	Share of total
TOTAL	931	100%
of which, Euro zone	419	44.9%
Netherlands	118	12.7%
France	77	8.3%
Belgium	67	7.2%
China	64	6.9%
Italy	55	5.9%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** euro billions* — Forecasts

Sources: IHS Global Insight, Euler Hermes forecasts

GERMANY	2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP	100%	-4.7	3.6	2.1	1.6	0.6	2.3	0.7	0.6	0.3	0.3
Consumer spending	58%	-0.1	0.4	1.3	1.2	0.2	0.6	0.4	0.4	0.3	0.3
Public spending	20%	2.9	2.3	1.0	0.3	1.9	-1.1	1.1	1.2	-0.2	0.1
Investment	19%	-10.0	5.8	3.9	2.3	1.2	5.6	1.3	0.8	0.6	0.5
Construction	10%	-1.3	3.9	1.7	1.1	-0.8	6.9	-0.4	0.3	0.0	0.0
Equipment	10%	-17.2	7.7	5.9	3.4	3.1	4.3	2.9	1.3	1.2	1.0
Stocks *	-1%	0.1	0.9	0.0	0.0	1.1	0.7	-0.3	0.0	0.0	0.0
Exports	46%	-14.3	14.5	6.9	5.7	3.0	7.9	2.3	1.8	0.9	0.9
Imports	42%	-9.4	13.9	6.7	5.4	6.5	7.8	1.9	1.9	0.9	0.9
Net exports *	4%	-3.2	0.9	0.4	0.4	-1.3	0.4	0.3	0.0	0.0	0.1
Current account **		121	123	136	149						
Current account (% of GDP)		5.1	4.9	5.2	5.6						
Employment		0.0	0.5	0.7	0.5						
Unemployment rate		7.8	7.4	7.1	6.9						
Wages		2.7	1.7	2.0	2.8						
Inflation		0.3	1.1	1.4	1.3						
General government balance **		-72	-95	-73	-56						
General government balance (% of GDP)		-3.0	-3.8	-2.8	-2.1						
Public debt (% of GDP)		73	76	76	76						
Nominal GDP **		2,395	2,497	2,590	2,678						

France

Consolidation…

Overview

The French economy continues its recovery. Growth prospects are strengthening for 2012 (+1.8%) despite a slight deceleration likely in 2011 (+1.3%, after +1.5% in 2010) and a context of austerity measures and deterioration in the external balance. France is slowly returning to its traditional sources of growth in the components of domestic demand, with a slight increase in consumption and a slow recovery in investment, even as the country undertakes a vast austerity programme aimed at cutting the deficit by nearly 6 points of GDP from 2010 to 2014. Foreign trade played an only temporary role in driving growth, and, after having given very positive signals (with exports performing superbly) during the exit from the crisis, the growth impulse from the foreign trade sector should again become negative, as in the pre-crisis period, especially as demand from France's leading trade partners (half of them in the euro zone) threatens to slow in line with the growing impact of austerity plans.

External sector: back to square one

The good export performance of 2010 was short lived, and it seems that French growth may be, as in the pre-crisis period, braked by its foreign trade. The good results achieved in 2010 are due a strong surge in exports (+9.6%) – the highest since 2001, in line with the recovery in global demand. In 2011, the engines of this growth will play the inverse of these roles. External demand, mainly from the euro zone, will slow, while imports will be maintained, reflecting the relative resilience of French domestic demand compared to that in its trading partners.

Household demand: firming in 2011 and 2012

Household demand should remain a major contributor to economic activity despite growing more slowly than in the pre-crisis period (+1.8% from 2011 to 2012, against +2.6% on annual average from 2000 to 2007). At the end of 2010, consumer confidence indicators from INSEE and Eurostat were on an upward trend, with unemployment stabilised and employment expected to show more outright recovery in 2011. In this context, household incomes should continue to rise, stimulating consumption, but this will be eroded by inflation, which is the main risk factor in our scenario, given the surge in inflationary pressures over the end of 2010.

Businesses: a gradual recovery

The outlook for businesses is improving. In terms of activity, apart from construction and agriculture, every sector emerged from recession in 2010. This impetus should continue and spread across all sectors, as suggested by improving Eurostat confidence indicators (in industry and services) over H2 2010. The only sour note is in automobiles, which should post a technical fall after the end of scrappage allowances in 2011. On the profits side, businesses are improving their financial situation. In this context, investment should stop contracting this year. This will be a slow process, with investment growth of 0.6% per quarter over 2011, in line with a gradual recovery in capacity utilisation rates (still 8 percentage points below their long-term average), due to firms adopting a cautious stance vis-à-vis the future of domestic demand following the introduction of austerity measures.

Politics and budgets: making way for austerity

Consolidation in public finances is moving ahead, and the deficit should have stabilised at 7.2% at the end of 2010 (against 7.6% in 2009) – a better outcome than the 7.7% deficit previously forecast, due to higher tax revenues. Similarly, the government should come nearer to its goals in 2011, thanks to a technical effect in the wake of the withdrawal of stimulus measures. However, we expect the deficit to be 6.6% of GDP, slightly higher than the 6% figure forecast in the government's 2011 draft finance law (*Projet de loi de finances, or PLF*), mainly given our forecast of less dynamic GDP growth (1.3%) than the figure set out in the PLF (2%). From 2012, the difference will become amplified further, inasmuch as the PLF forecasts growth of 2.5% per annum, which is a higher rate of growth than observed over the first half of the decade (+2%)! ▣ *MI*

Election timetable

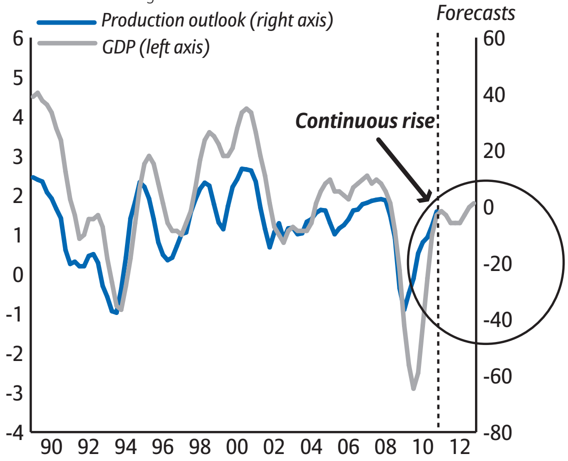
- **2012**: presidential election
- **2012**: legislative elections

Executive and legislature

- **President**: Nicolas Sarkozy
- **Prime Minister**: François Fillon
- **National Assembly** (577 seats): UMP (321), New Centre (21), Socialist Party (204), Communist Party and others (24), non-attached (7)

Advanced indicator of the economy

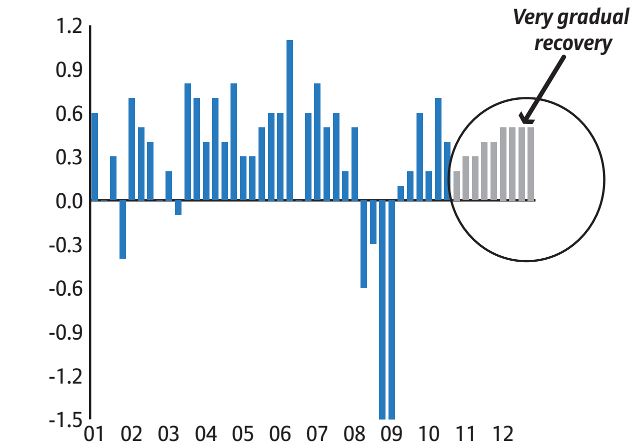
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

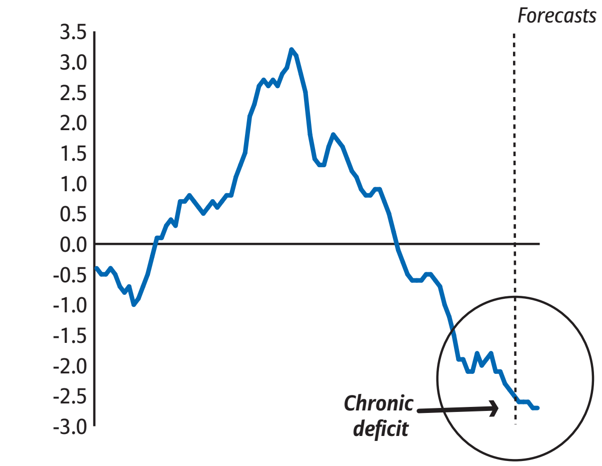
Country	Exports	Share of total
TOTAL	484	100%
of which, Euro zone	233	48.2%
Germany	77	15.9%
Italy	40	8.2%
Spain	38	7.8%
Belgium	36	7.4%
UK	34	7.0%

Country	Imports	Share of total
TOTAL	560	100%
of which, Euro zone	321	57.3%
Germany	109	19.4%
Belgium	65	11.6%
Italy	45	8.0%
Netherlands	40	7.1%
Spain	37	6.7%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** euro billions* — Forecasts
Sources: IHS Global Insight, Euler Hermes forecasts

FRANCE		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-2.5	1.5	1.3	1.8	0.2	0.7	0.4	0.2	0.3	0.3
Consumer spending		60%	0.6	1.6	1.7	1.9	0.0	0.3	0.6	0.4	0.4	0.4
Public spending		24%	2.8	1.4	0.6	0.4	-0.1	0.3	0.4	0.1	0.1	0.1
Investment		20%	-7.1	-1.6	2.4	3.2	-0.9	0.9	0.5	0.5	0.5	0.5
Construction		5%	-8.6	-2.0	3.9	4.1	-0.5	0.2	1.0	1.0	1.0	1.0
Equipment		15%	-6.6	-1.5	1.9	2.9	-1.0	1.2	0.4	0.4	0.4	0.4
Stocks	*	-1%	-1.9	0.6	0.3	0.3	-0.3	0.7	0.4	0.0	-0.1	0.0
Exports		27%	-12.2	9.6	6.6	6.8	4.4	2.6	2.5	1.4	1.4	1.4
Imports		30%	-10.6	8.7	8.0	7.0	1.8	3.9	4.1	1.8	1.3	1.4
Net exports	*	-3%	-0.2	0.0	-0.7	-0.3	0.6	-0.5	-0.6	-0.2	0.0	-0.1
Current account	**		-37	-42	-51	-57						
Current account (% of GDP)			-2.0	-2.1	-2.6	-2.7						
Employment			-1.4	0.0	0.5	0.7						
Unemployment rate			9.5	9.8	9.7	9.1						
Wages			1.8	2.0	1.8	2.1						
Inflation			0.1	1.4	0.9	1.2						
General government balance	**		-144	-140	-132	-125						
General government balance (% of GDP)			-7.6	-7.2	-6.6	-6.1						
Public debt (% of GDP)			78	85	89	92						
Nominal GDP	**		1,907	1,948	1,995	2,056						

Italy

Fragile recovery

Overview

After a sharp contraction (-5.1%) in 2009, Italy emerged from the crisis in 2010 with moderate growth (+1.0%) and should continue growing at a fairly similar rate over the next two years. The major sources of growth will be domestic demand, with household consumption and investment expenditure strengthening slowly despite the fall in public spending. This very particular situation, one of recovery in domestic demand by 2011 in a country under an austerity programme, arises in large part from Italy's relatively low level of private sector debt compared to its neighbours and from an increased propensity to spend, thanks to the improved outlook. The withdrawal of the public sector as a contributor to growth (the withdrawal of stimulus measures, alongside fiscal consolidation) should be offset by greater private sector involvement. In this context, Italy's trade balance is expected to post a slight fall, due to an increase in imports relative to exports. However, the outlook remains fragile, given the pressures surrounding European sovereign debt: a deterioration in market confidence could have unfavourable domino effects, particularly on domestic demand, by increasing precautionary savings in the private sector.

External sector: export performance overridden by imports

Italian competitiveness vis-à-vis the euro zone has deteriorated sharply in recent years and, despite a depreciation in the euro's effective exchange rate during the first half of 2010, the foreign trade balance is forecast to remain slightly negative. This development will not reflect a poor performance on the part of exports, which will remain on an upward trend (+6.8% in 2011) despite a slowdown in demand in the euro zone (accounting for 42.6% of Italy's exports), but rather will result from stronger domestic demand and hence a larger increase in imports (+7.3%).

Household demand: a very weak driver

After deteriorating during the first half of 2010, both the ISAE consumer confidence indicator and retail sales (excluding, notably, automobile sales) have been improving. In this context, household expenditure should recover in 2011 and 2012, continuing the trend begun in 2010. They should benefit from Italian households' lower debt on emerging from the crisis, at 65% of disposable income (compared to an average of 98% in the euro zone in September 2010) and from an improved jobs market over 2011 and 2012. Nonetheless, two types of risks could compromise this dynamic. The first would be a rise in tensions over sovereign debt, which, by undercutting consumer confidence could lead to an increase in precautionary savings. The second would be a deterioration in real wages through an acceleration in inflation.

Businesses: improved outlook

Confidence indicators in industry and construction are improving. Similarly, the fundamentals continue to strengthen, with improvements in productivity (+2% yr/yr in Q3 2010), profitability ratios and self-financing ratios. Capacity utilisation rates are also rising and point to rising investment (+5% yr/yr in Q3 2010) thanks to the capital goods sector, but with no outright revival in construction, held back by the poor outlook in the real estate market.

Politics and budgets: a credible policy

Fiscal consolidation is moving forward and, given the reduction in the deficit by 0.4 percentage points to 5.1% of GDP between the Q1 and Q3 2010, the 2010 target of 5% is likely to have been met. In this context, the government's planned measures for the coming years seem credible (deficits of 3.9% in 2011 and 2.7% in 2010), especially if current Finance Minister Giulio Tremonti, the strength of whose political will has already been demonstrated, continues to run fiscal policy. Budgetary adjustment should be achieved by reducing operational costs and by improved automatic stabilisers (increased VAT revenues) thanks to strengthening domestic demand. However, the adjustment could be braked by increased market pressures likening Italy to Portugal and Greece, despite Italy's having a comparatively lower pubic deficit as a percentage of GDP and a banking sector that is in better financial health. ▣ *MI*

Election timetable

► **2013**: General election

Executive and legislature

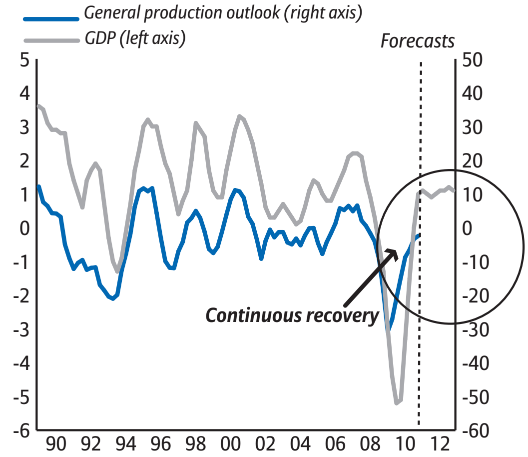
► **Prime Minister**: Silvio Berlusconi (People of Freedom, 29 April 2008)

► **Chamber of Deputies** (630 seats): after elections of 14 April 2008, there were 344 seats on the right, including People of Freedom and Northern League . The left had 246 seats, including the centre-left Democratic Party and Italy of Values

► **Senate** (315 seats): right, 174 seats; left, 132 seats

Advanced indicator of the economy

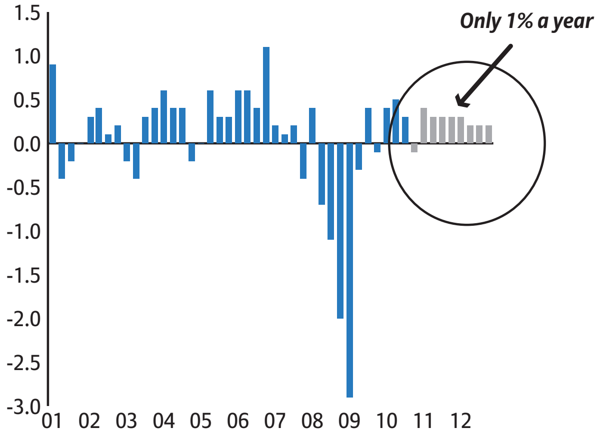
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

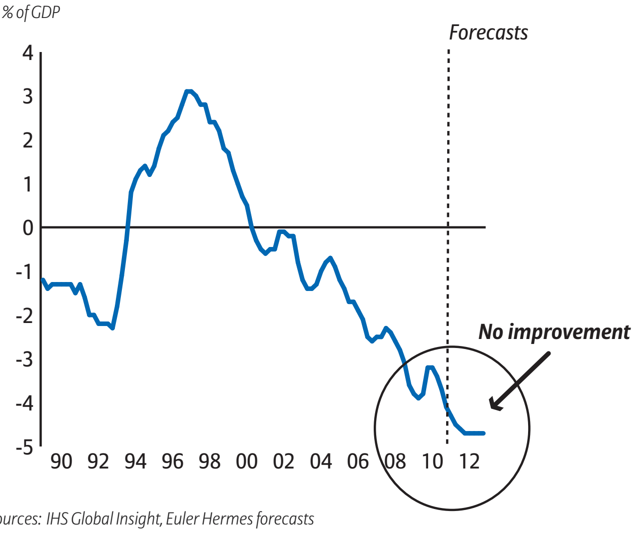
Country	Exports	Share of total
TOTAL	405	100%
of which, Euro zone	172	42.6%
Germany	51	12.6%
France	47	11.6%
USA	24	5.9%
Spain	23	5.7%
UK	21	5.1%

Country	Imports	Share of total
TOTAL	410	100%
of which, Euro zone	185	45.1%
Germany	68	16.7%
France	36	8.8%
China	27	6.5%
Netherlands	23	5.6%
Spain	18	4.3%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** euro billions*
Sources: IHS Global Insight, Euler Hermes forecasts

Forecasts

ITALY	2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP	100%	-5.1	1.0	1.0	1.1	0.4	0.5	0.3	-0.1	0.4	0.3
Consumer spending	61%	-1.8	0.7	1.2	1.4	0.2	0.0	0.3	0.3	0.3	0.3
Public spending	22%	0.6	-0.5	-0.4	-0.4	-0.5	0.4	-0.2	-0.1	-0.1	0.0
Investment	19%	-12.2	3.1	4.3	3.9	1.3	2.0	0.9	0.9	1.2	1.0
Construction	10%	-7.9	-2.4	0.2	0.2	-0.5	-0.3	0.6	-0.3	0.1	0.0
Equipment	9%	-16.3	8.8	8.1	7.1	3.1	4.2	1.2	2.1	2.1	1.9
Stocks *	0%	-0.4	0.1	-0.1	0.0	0.2	-0.6	0.0	0.0	0.0	0.0
Exports	24%	-19.1	7.8	6.8	5.2	3.4	2.4	2.8	1.6	1.5	1.3
Imports	25%	-14.6	8.2	7.3	6.4	3.3	-0.1	4.7	1.3	1.5	1.4
Net exports *	-2%	-1.2	-0.2	-0.3	-0.5	0.0	0.6	-0.5	0.0	0.0	-0.1
Current account **		-49.4	-63.5	-75.3	-77.3						
Current account (% of GDP)		-3.2	-4.1	-4.7	-4.7						
Employment		-1.5	-0.6	0.0	0.5						
Unemployment rate		7.8	8.5	8.5	8.1						
Wages		3.1	2.0	1.8	1.8						
Inflation		0.7	1.6	1.5	1.5						
General government balance **		-80.6	-82.4	-62.2	-44.2						
General government balance (% of GDP)		-5.3	-5.3	-3.9	-2.7						
Public debt (% of GDP)		115.6	119.0	119.9	119.7						
Nominal GDP **		1,520	1,554	1,594	1,636						

Spain

Everything in moderation

Overview

The Spanish economy is recovering slowly after a severe contraction: with activity dropping by 3.7% in 2009, the crisis put an end to a decade of dynamic growth that had averaged 3.5% between 1998 and 2008. For the year 2010, the economy should post still negative growth, at -0.2%, despite the encouraging signs of improved activity over the first two quarters. Recovery will be slow, at +0.5% in 2011 and +1.1% in 2012, because the next growth drivers remain very fragile given the scale of the shock to the economy. In 2011, domestic demand will still pay the price of the recession, stagnating at nearly 93% of its 2007 pre-crisis level, and foreign trade will be the main engine powering the economy, with a growth impulse of 0.9%. Investment (22% of GDP) will struggle to revive, braked by a still fragile outlook. The government will continue efforts to reduce public expenditure, constrained by the markets and by Spain's euro zone partners. In this context, domestic demand will depend primarily on household consumption, which, although in positive territory, will slow against 2010, hit by a deterioration in real wages. The economic situation will improve markedly in 2012, thanks to a strong revival in domestic demand, with a bounceback in investment (+0.7%) and stronger household consumption.

External sector: helping to drive growth in 2011, but a brake in 2012

Spain's trade balance improved in 2010 in line with the increase in world demand. In parallel, the country's export competitiveness to the euro zone (which accounts for 57% of Spanish exports) improved after years of deterioration, helped by a fall in unit wage costs, and Spain should record an improved trade balance for the year 2011. This boom in net exports should be temporary, however, with strengthened domestic demand giving rise to increased imports.

Household demand: fragile recovery

Household expenditure will grow at only a modest pace, sustained mainly by a reduction in the rate of savings and an improved jobs market. The household rate of savings has been falling since the start of 2010, after rising to a very high level in 2009 due to the fall in housing investment. This tendency should continue, benefiting consumption, given the outlook for low interest rates in the short-term. Even so, the reduction in savings should be only moderate, limited by a rise in precautionary savings in response to uncertainties over recovery. Employment data should confirm the dynamics of a gradual recovery, with job creation likely to continue in 2011, in line with the trend begun at the end of 2010, thus boosting consumption. The effects of this, however, are likely to be attenuated by a fall in real wages.

Businesses: cutting debt is the priority

The financial capacity of non-financial businesses is improving, thanks to the degearing carried out since the onset of the crisis, and given the weak outlook on investment. Indeed, many sectors were still in difficulty in 2010, in particular construction – paying the price of the earlier real estate market excesses and posting a further 6.3% cumulative 12-month contraction in Q3 2010, similarly to the year before. But in this context, several indicators (construction starts, new permits) do point to an improvement in the situation, although investment recovery should be slow, especially in the construction industry, which accounts for 51% of Spanish investment but will remain in negative territory in 2011 and only slightly positive in 2012.

Politics and budgets: austerity

Austerity will be the watchword during the coming years, with Spain having to reabsorb a deficit of close to 10% of GDP in 2010 under pressure from European authorities and the financial markets. With public finances deteriorating by almost 12% during the crisis, in particular because of government stimulus measures, Spain's budgetary binge was one of largest in the euro zone (after Ireland's) over 2007-2009. The country has been given until 2013 to rectify the imbalance and reduce its deficit to 3% of GDP (with intermediate targets of 9.3% of GDP in 2010 and 6% in 2011). In this aim, the government increased the VAT rate by 2 points to 18% in July and planned savings in construction investment and public sector operating expenditure. Barring any worsening of the tensions over sovereign debt, the country should be able to come close to its objectives, as suggested by the deficit reduction already achieved since the end of 2009 (1 percentage point of GDP in three quarters), thanks to the improvement in the automatic stabilisers and thanks to a determined political will that has already proved reliable in the past. Indeed, during the pre-crisis period Spain was one of the very few countries of the euro zone to post a budget surplus (+1.9% of GDP in 2007). ■ *MI*

Election timetable

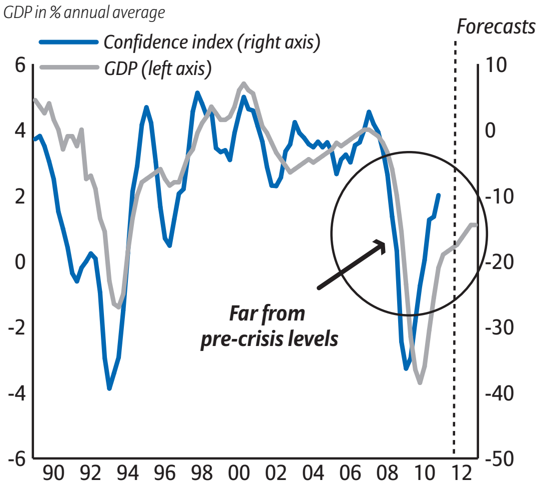
► **2012**: legislative elections

Executive and legislature

► **Constitutional monarchy**
► **Head of State**, King Juan Carlos I
► **Prime Minister**: José Luis Rodriguez Zapatero (PSOE)
► **Congress of Deputies** (350 seats): Spanish Socialist Workers' Party (PSOE, 169); People's Party (PP, 153); Catalan 'Convergence and Unity' (CiU, 11); Republican Left of Catalonia (ERC, 3); United Left (IU, 2), Basque Nationalists (PNV, 6), Galician Nationalist Bloc (BNG, 2), Union, Progress and Democracy (UPyD, 1), Canary Islands Coalition (CC, 2), Navarre Yes (NB, 1)

Advanced indicator of the economy

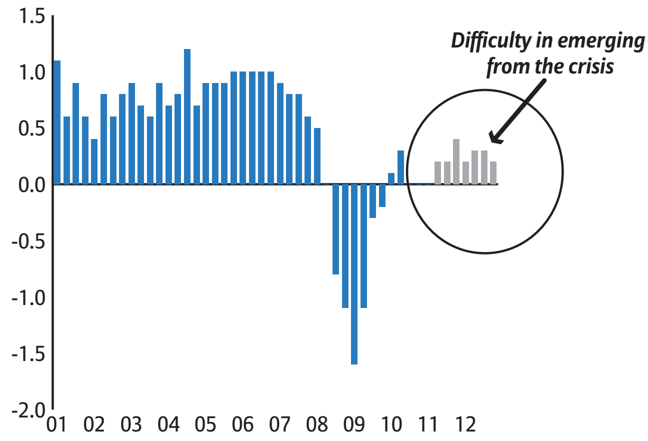
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

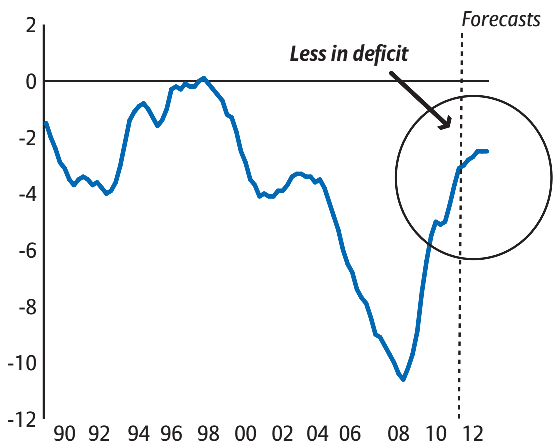
Country	Exports	Share of total
TOTAL	218	100%
of which, Euro zone	123	56.6%
France	42	19.3%
Germany	24	11.1%
Portugal	20	9.2%
Italy	18	8.2%
UK	13	6.2%

Country	Imports	Share of total
TOTAL	288	100%
of which, Euro zone	147	51.1%
Germany	43	15.0%
France	37	12.8%
Italy	21	7.2%
China	17	5.8%
Netherlands	15	5.2%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** euro billions* — Forecasts
Sources: IHS Global Insight, Euler Hermes forecasts

SPAIN		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-3.7	-0.2	0.5	1.1	0.1	0.3	0.0	0.0	0.0	0.2
Consumer spending		58%	-4.3	1.1	0.8	2.0	0.9	1.5	-1.1	0.0	0.2	0.6
Public spending		22%	3.2	0.0	-0.3	-0.3	0.1	0.7	-0.4	-0.1	-0.1	-0.1
Investment		23%	-16.0	-7.5	-3.1	0.7	-1.6	-0.6	-2.9	-0.7	-0.6	-0.4
Construction		12%	-11.9	-10.9	-3.9	0.5	-3.0	-2.2	-3.2	-0.8	-0.6	-0.4
Equipment		11%	-20.0	-3.9	-2.3	1.0	-0.2	1.2	-2.7	-0.5	-0.6	-0.3
Stocks	*	3%	-1.1	-0.1	-0.2	0.0	0.1	0.2	-0.4	0.0	0.0	0.0
Exports		28%	-11.6	8.8	2.2	2.6	4.1	1.4	0.1	0.2	0.6	0.7
Imports		33%	-17.8	4.5	-0.6	2.7	4.4	3.6	-5.0	-0.3	0.5	0.8
Net exports	*	-6%	3.5	1.0	0.9	-0.1	-0.3	-0.8	1.8	0.2	0.0	-0.1
Current account	**		-58	-47	-30	-28						
Current account (% of GDP)			-5.5	-4.4	-2.8	-2.5						
Employment			-6.8	-2.1	0.4	0.9						
Unemployment rate			18.0	19.9	19.6	18.9						
Wages			4.3	2.1	1.1	1.0						
Inflation			-0.2	1.7	1.6	1.2						
General government balance	**		-117	-103	-82	-56						
General government balance (% of GDP)			-11.1	-9.7	-7.6	-5.0						
Public debt (% of GDP)			53	63	70	74						
Nominal GDP	**		1,054	1,063	1,085	1,110						

Netherlands

A still modest recovery

Overview

After a severe contraction in 2009 (-39%), the Dutch economy posted a clear 1.7% upturn in GDP in 2010, equal to growth in the euro zone (also +1.7%), thanks in particular to a sound performance between Q3 2009 and Q2 2010 (+0.7% on average). However, the three main drivers of this recovery should gradually weaken. Inventory adjustments should return to normal in the aftermath of the strong restocking activity of early 2010, followed by a correction in Q3 2010 that temporarily cut quarterly GDP growth to nil. The support given by public expenditure should also weaken, given the end of stimulus measures and the rising importance of budgetary consolidation measures planned by the Netherlands' new coalition government. Moreover, the sharp upturn in exports initiated by the rapid recovery in world trade is likely in 2011 to confirm the slowing already at work since spring 2010. In this context, the country's GDP growth could ease in 2011 (+1.3%) in the absence of sufficient support from the consumption component of domestic demand, which only just stabilised in 2010, as did investment, due to underutilisation of production capacities. Quarterly GDP should thus only return to its pre-crisis peak in the second half of 2012.

External sector: slowing ahead

Given the Dutch economy's particularly high degree of opening internationally, exports account for more than 80% of the country's GDP and will continue to play an important role. The bounceback phase in world trade proved very advantageous, allowing exports in 2010 to return to pre-crisis quarterly levels of activity both by value (despite the depreciation in the euro) and by volume, in particular thanks to re-exports (which account for half of total exports and are directly related to the Netherlands' vast harbour and logistical infrastructure base) and thanks to its commodity sales (petroleum products and gas, etc). The slowing in world trade, and in particular in demand from neighbouring countries, can only result in a very noticeable slowing in Dutch exports in 2011, but this will not call into question the restoration in the trade and current account balances observed in 2010.

Household demand: persistently weak

Apart from a 0.4% qtr/qtr gain in Q1 2010, household consumption expenditure overall was nearly unaffected by the recovery in the economy and the beginnings of recovery in the employment market after a display of relative resilience following the crisis: by volume, until autumn, consumption remained nearly stable at the quarterly level of Q4 2006 (a level reached in mid-2009 after collapsing for two quarters). The consolidation in growth and employment, even on a modest scale, and the improvement in the sub-indicators of household confidence, which were for the most part still below their long-term average at the end of 2010, will help to revive consumption, but this will continue to be limited by wage moderation and by consolidation of public finances.

Businesses: mixed fortunes

Activity increased more in those sectors of industry and services most affected by the rebound in foreign trade, and less in those more dependent on domestic demand, e.g., retailing and, especially, construction. These disparities, however, did not prevent an overall improvement in the major business indicators (production, utilisation rates) and in advanced indicators (confidence, order books, outlook). Nor did they prevent business profits from recovering over the months (+30% in Q3 2010 from the low point of Q2 2009) and bringing a fall in insolvencies (-9% in 2010, after +73% in 2009). This improvement, however, suggests only a very gradual resumption of productive investment and employment, inasmuch as it is in most cases based on a starting point of the very low levels hit during H1 2009. Indeed, at the end of 2010, GDP and industrial output were still well below their pre-crisis quarterly peaks: -2.6% in the case of GDP, and -4% for industrial output.

Politics and budgets, 'freedom and responsibility' on the agenda

Elections held at the beginning of June 2010, scheduled after the collapse of the government coalition in February over 'irreconcilable differences' between the two largest parties over Afghanistan troop deployments, finally led – after several months of difficult negotiations – to the formation of a new government at the end of September. The new Prime Minister, Rutte Mark, leads only a minority coalition between the VVD and CDA, based on their 'Freedom and Responsibility' agreement, with support in Parliament from the PVV. One of the main aims is undoubtedly the rapid restoration of public finances, through the continuation of the austerity measures of the previous government and the termination of recovery measures, as well as the adoption of additional measures, in large part through expenditure cuts, in order to make savings of €18 billion over four years. ▣ *ML*

Election timetable

► **2014**: legislative elections

Executive and legislature

► **Constitutional monarchy with parliamentary government**

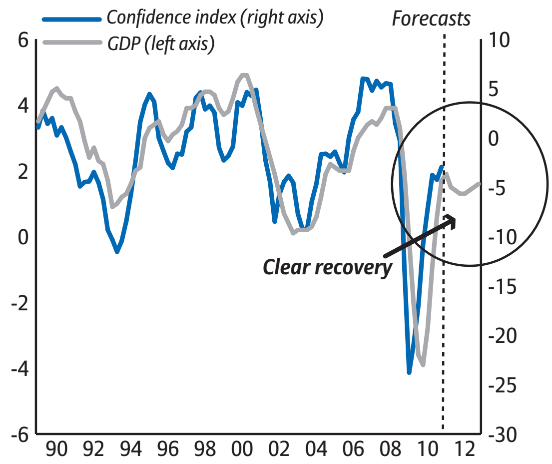
► **Prime Minister**: Mark Rutte (VVD),

► **Minority coalition government**

► **Parliament** (second chamber or 'Tweede Kamer', with 150 seats): VVD (Liberals, 31), PvdA (Labour, 30), PVV (extreme right, 24), CDA (Christian Democrats, 21), Socialists (SP, extreme left, 15), Green Left (GL, 10), D'66 (centrist reformers, 10), Christian Union (5), others (4)

Advanced indicator of the economy

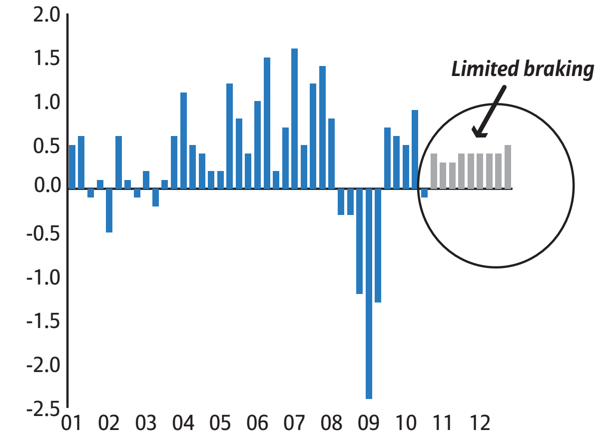
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

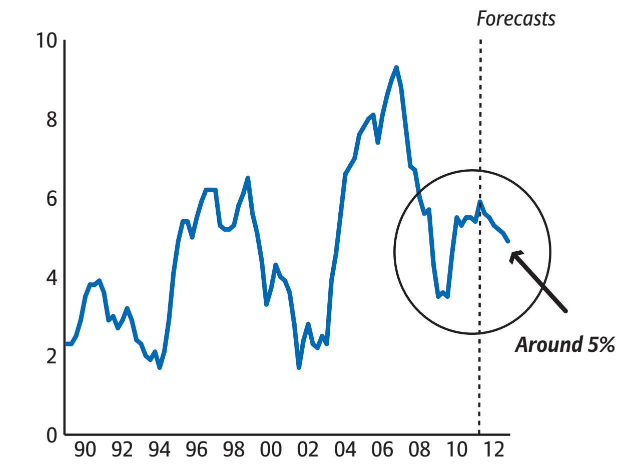
Country	Exports	Share of total
TOTAL	499	100%
of which, Euro zone	304	60.9%
Germany	127	25.5%
Belgium	62	12.5%
France	46	9.3%
UK	41	8.2%
Italy	25	5.1%

Country	Imports	Share of total
TOTAL	446	100%
of which, Euro zone	165	37.1%
Germany	77	17.2%
China	52	11.6%
Belgium	39	8.7%
USA	35	7.8%
UK	25	5.7%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

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

Forecasts

Sources: IHS Global Insight, Euler Hermes forecasts

NETHERLANDS	2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP	100%	-3.9	1.7	1.3	1.6	0.5	0.9	-0.1	0.4	0.3	0.3
Consumer spending	47%	-2.5	0.1	0.7	1.1	0.4	-0.1	0.1	0.2	0.2	0.2
Public spending	26%	3.7	1.8	0.4	-0.2	-0.3	1.0	0.7	0.1	-0.1	-0.2
Investment	20%	-12.7	-4.6	1.6	3.0	-0.2	3.4	-2.0	0.3	0.6	0.6
Construction	10%	-8.7	-18.2	0.5	2.0	-8.3	-2.4	0.0	0.3	0.3	0.3
Equipment	9%	-16.6	10.3	2.5	3.9	8.0	8.4	-3.6	0.3	0.8	0.8
Stocks *	-1%	-0.8	1.4	-0.2	0.0	1.4	0.8	-1.7	0.6	0.0	0.0
Exports	81%	-7.9	10.3	4.7	5.3	4.2	2.3	1.1	1.0	1.0	1.1
Imports	73%	-8.5	10.6	4.2	5.1	6.0	3.5	-1.0	1.6	1.0	1.0
Net exports *	8%	-0.2	0.6	0.8	0.6	-1.0	-0.8	1.8	-0.4	0.1	0.1
Current account **		26	32	33	31						
Current account (% of GDP)		4.6	5.5	5.5	4.9						
Employment		-0.5	-1.2	0.6	0.6						
Unemployment rate		4.8	5.5	5.3	5.2						
Wages		2.8	1.2	1.3	1.7						
Inflation		1.0	1.0	1.3	1.3						
General government balance **		-31	-35	-29	-23						
General government balance (% of GDP)		-5.4	-6.0	-4.8	-3.6						
Public debt (% of GDP)		61	65	68	69						
Nominal GDP **		572	591	609	628						

Belgium

Economic recovery has not ended the political crisis

Overview

The revival begun in the Belgian economy in H2 2009 was overall confirmed in 2010, despite quarterly jolts. For the full year 2010, GDP will post a significant increase: +2% after -2.7% in 2009 (better than the euro zone's +1.7% figure), with a near-return at the very end of 2010 to its pre-crisis quarterly level. The outlook, however, remains one of more modest growth for 2011 (+1.5%) followed by a slight acceleration in 2012 (+1.8%), lower than the 2.5% average growth posted in the decade before the crisis. The impulse from the foreign trade sector, which was vital to recovery and contributed 70% of growth in the six consecutive quarters of recovery, promises to be less sustained, mostly due to a slowing in external demand. For its part, domestic demand should manage to consolidate thanks to resilient consumption and thanks to private investment, which should partially take over the reins from public expenditure, the latter now constrained by budget consolidation requirements and by the practical impact of Belgium's political crisis.

External sector: a vital contribution

The revival in world trade is clearly helping Belgian exports, in large part made up of semi-finished products and mainly exported to other European countries. The clear increase seen in H2 2009 (+5.2% by volume against H1 2009) was consolidated in 2010 – both by value (with goods exports up cumulatively for the first 10 months of the year by 19%) and by volume (an expected 10% increase for the full year for goods and services together), but still not yet marking a return to pre-crisis levels. Export growth will not be as strong in 2011, given slowing demand both in Belgium's main European trading partners (notably Germany) and in countries outside the EU. Despite this, exports will remain a vital factor not only in Belgium's GDP – accounting for more than 75% of the total – but also in maintaining the country's positive external balances.

Household demand: sustained by relatively resilient employment

Household demand has more than recovered from the severe contraction of winter 2008-2009, thanks in particular to the employment market. While temporary lay-offs and flexible working hours had helped to limit job destruction from the crisis, recovery was rapidly accompanied by a stabilisation in employment, especially in industry, and then by new net job creation, especially in services. All this helped to fuel a nearly continuous improvement in household confidence indicators, and also to lessen the propensity to save (with the savings rate down from 19% at the start of 2009 to 16% in mid-2010). It also helped to sustain consumption, despite a continued rise in the unemployment rate. This dynamic promises to ease over 2011, especially on the employment side, but still remain positive, before an improvement in 2012, the scale of which will depend on forthcoming wage negotiations.

Businesses: a very mixed picture

The revival in activity has allowed only a relative and very mixed improvement in the state of Belgium's businesses. Overall, there was a clear recovery in operating profits (+9% for Q3 2010 compared against the low point of Q1 2009), but this did not make up for the previous fall and only slowed the rise in business insolvencies. Also, the recovery in value added was very uneven. In the case of construction, it was only a very limited +0.5% between Q1 2009 and Q3 2010, due to flagging demand up to autumn 2010. The recovery in industry, by contrast, was very dynamic (+5.1%), but with the sector still well below its pre-crisis levels, and output volume at the end of 2010 some 10% below the high point of the start of 2008. Lastly, the recovery was moderate (+2.4%) but came earlier in services, which account for 70% of GDP, but in the end this was sufficient to return to pre-crisis levels and spark a recovery in employment and investment, which should follow in 2012.

Politics and budgets: more than 200 days without a government

The elections of June 2010, with the victories for the New Flemish Alliance (N-VA) in the Dutch-speaking north, and of the Socialist Party (PS) in Wallonia, have very seriously sharpened inter-community tensions and led the country into an unprecedented institutional crisis. Successive failures in all the negotiations between parties have so far prevented the formation of a new government and thus the creation of the 2011 budget, allowing only the running of day-to-day matters (under the "douzièmes provisoires" system of month-by-month budgeting, based on 2010 budget figures). The current impasse and accompanying prolonging of this situation correspondingly delays the start of any new adjustment measures and structural reforms, threatening to increase uncertainty in the financial markets over the future of Belgium's public finances. ▣ *ML*

Election timetable

► **June 2014**: legislative elections

Executive and legislature

► **Federal constitutional monarchy**

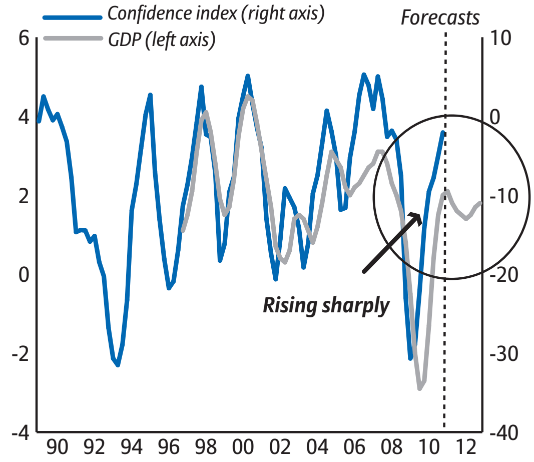
► **Head of State**: King Albert II

► **Prime Minister**: Yves Leterme (since November 2009 – resigned April 22, 2010 but serving as caretaker in the post)

► **Chamber of Representatives** (150 seats), after June 2010 elections: New Flemish Alliance (N-VA, 27 seats), Socialist Party (PS, 26, Francophone), Reformist Movement (MR, 18, Francophone), Flemish Christian Democrats (CDV, 17), Socialist Party – Different (SP.A, 13, Flemish), Open Flemish Liberals and Democrats (Open VLD, 13), Flemish Interest (VB, 12), Humanist Democratic Centre (CdH, 9, Francophone), others (9)

Advanced indicator of the economy

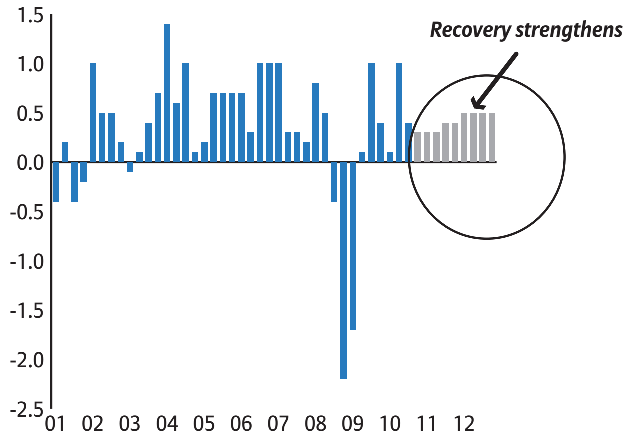
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

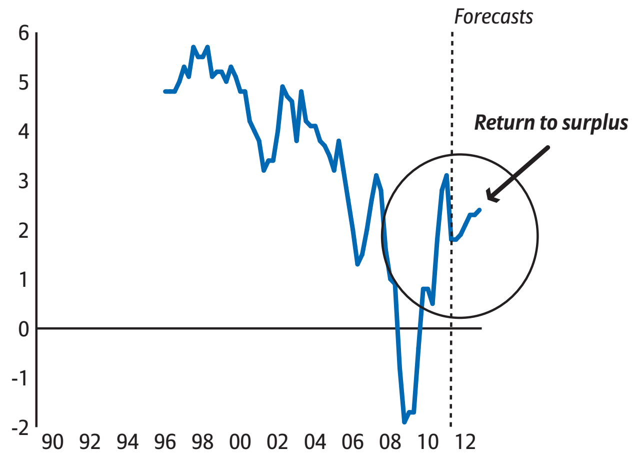
Country	Exports	Share of total
TOTAL	370	100%
of which, Euro zone	232	62.6%
Germany	72	19.6%
France	66	17.7%
Netherlands	44	11.8%
UK	27	7.2%
USA	20	5.4%

Country	Imports	Share of total
TOTAL	352	100%
of which, Euro zone	214	60.8%
Netherlands	63	17.9%
Germany	60	17.1%
France	41	11.7%
Ireland	22	6.3%
USA	20	5.7%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** euro billions*
Sources: IHS Global Insight, Euler Hermes forecasts

Forecasts

BELGIUM		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-2.7	2.0	1.5	1.8	0.1	1.0	0.4	0.3	0.3	0.3
Consumer spending		53%	-0.2	1.4	1.2	1.6	0.2	0.3	0.3	0.3	0.3	0.3
Public spending		26%	1.1	0.9	0.7	0.7	-0.3	0.7	0.2	0.2	0.1	0.1
Investment		20%	-6.1	-1.9	1.5	2.6	-1.4	0.8	0.3	0.3	0.3	0.3
Construction		6%	-3.0	-3.7	0.6	1.9	-1.2	-0.5	-0.3	0.0	0.3	0.4
Equipment		14%	-7.5	-1.1	1.9	2.9	-1.5	1.3	0.5	0.5	0.3	0.3
Stocks	*	1%	-1.0	0.6	0.0	0.0	0.4	0.4	0.0	-0.1	0.0	0.0
Exports		78%	-11.4	9.9	3.4	4.9	1.7	3.7	1.0	0.5	0.4	0.6
Imports		78%	-10.9	9.0	3.0	4.6	2.1	3.2	0.9	0.4	0.4	0.5
Net exports	*	0%	-0.5	0.8	0.4	0.3	-0.3	0.5	0.1	0.1	0.0	0.1
Current account	**		3	10	7	9						
Current account (% of GDP)			0.8	2.8	1.9	2.4						
Employment			-0.4	0.7	0.2	0.5						
Unemployment rate			7.9	8.6	8.8	8.2						
Wages			2.6	0.5	1.1	1.4						
Inflation			0.0	2.2	1.9	1.7						
General government balance	**		-20	-18	-17	-17						
General government balance (% of GDP)			-6.0	-5.0	-4.8	-4.5						
Public debt (% of GDP)			96	99	101	102						
Nominal GDP	**		339	351	363	376						

Greece

Still in recession

Overview

With most of the euro zone economies recovering, Greece began 2011 in recession. After a very difficult 2010 (-3.8%), marked by historic pressures surrounding its sovereign debt, and rising social and political tensions, in 2011 economic growth should remain in negative territory (-2.2%) for the third consecutive year. Domestic demand is expected to remain depressed, with a contraction in all its components: a decrease in consumer spending under the impact of fiscal consolidation, and a fall in investment because of credit constraints and lack of sales outlets domestically. In this context, the foreign trade sector is likely to be the only source of growth. But after slow recovery in 2011, due to slowing demand in a Europe braked by various austerity programmes, exports should increase in 2012, sustained by improved competitiveness. However, the outlook remains very fragile, given that Greece's austerity programme – one of the most severe in Europe, with the deficit coming down by 6 percentage points in 2010 to 9.4% – could compromise the country's economic recovery and lead to stronger deterioration in the economic fundamentals.

External sector: a rising engine of growth

In 2010, foreign trade helped mitigate the effects of the crisis through a drastic reduction in imports (-12.3%) compared to exports (-1.1%), and the sector should gradually become the economy's main growth driver. Greece's competitiveness should also improve: the decline in real wages should impact on unit wage costs, reversing the upward trend in nominal wages of recent years, and lead to better export competitiveness, whose effects will be felt in 2012 (+5.7%). Meanwhile, imports are expected to remain limited by weak domestic demand.

Household demand: flagging in 2011, rising in 2012

Household consumption has been contracting since 2009 and is unlikely to recover before 2012. The adjustment will occur in real wages. In 2010, household purchasing power was depressed by a sharp deceleration in nominal wages, in line with job losses and accelerating inflation (+4.3% against +1.2% in 2010), the latter fuelled by a VAT hike from 19% to 21% in July 2010. The year 2011 should be one of transition, with a smaller fall in consumption, with real wages still in negative territory despite an easing of inflationary pressures (weakening effects of the VAT increase), and slowing nominal wages (civil service wage cuts). In 2012, with the economy still showing overcapacity and with reduced inflationary pressures, real wages should increase and lead to an increase in consumption.

Businesses: very weak prospects

At the end of 2010, confidence indicators in industry and construction rose hesitantly following improvement in the international economic climate. As in the case for household demand, recovery will be a slow affair given the many excesses needing to be eliminated. Earlier real estate market excesses continue to weigh on the outlook in construction, and investment in this sector should continue to struggle up into 2012. The capital goods sector should start to recover in late 2011 and post a clear recovery in 2012, particularly via public-private partnerships that were postponed at the height of the Greek debt crisis.

Politics and budgets: austerity whatever the risks

After years of fiscal stimulus, Greece will have to continue tightening its belt as in 2010, when a nearly 6 points cut in the deficit (to 9.4% of GDP) corrected a drift of equivalent scale seen between 2008 and 2009. Greek debt as a percentage of GDP is one of the highest in the euro zone and its sustainability has become a critical matter, at a time when any room for manoeuvre is limited both by the very low prospects of growth in the short term and by the pressure from financial markets, which translates into high interest rates. The reduction in the public finances imbalance is being implemented through severe austerity measures that limit domestic demand at all levels (reduced payrolls in the public service, higher tax rates on high incomes, and VAT) and all this places Greece in a very dangerous situation of 'austerity in recession'. This is true economically, threatening to block domestic sources of growth and thus any improvement in the automatic stabilisers before emerging from the crisis, and true politically, in exacerbating social tensions. At the same time, it leaves the risk of default still present. ▣ *MI*

Election timetable

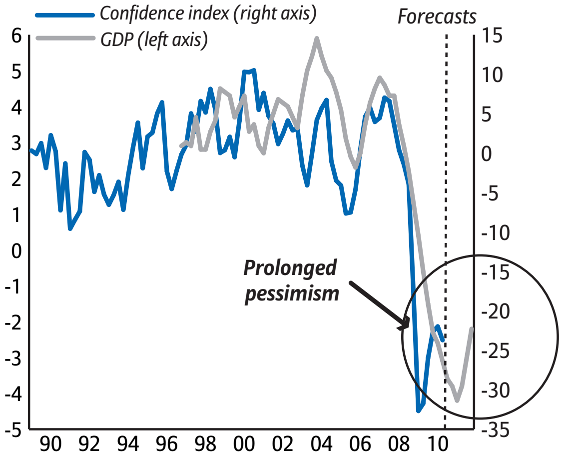
- **2013**: legislative elections
- **2015**: presidential elections

Executive and legislature

- **President** (elected by the Parliament): Karolos Papoulias (PASOK), in office since 2005 and re-elected in February 2010
- **Prime Minister**: George Papandreou (PASOK), since October 200
- **Parliament** (300 seats): New Democracy (ND, 91 seats), Panhellenic Socialist Movement (PASOK, 160), Communist Party of Greece (KKE, 21), Popular Orthodox Rally (LAOS, 15)

Advanced indicator of the economy

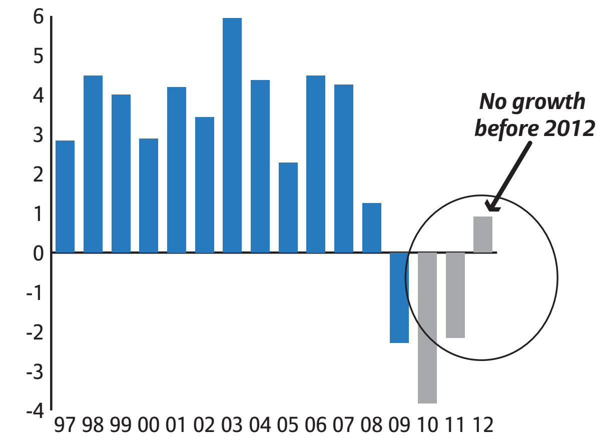
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

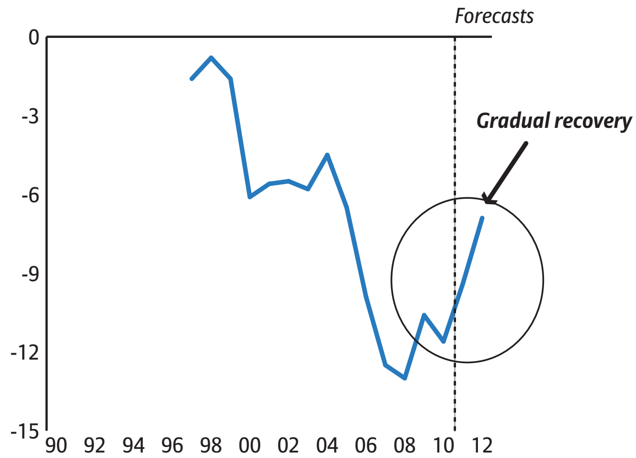
Country	Exports	Share of total
TOTAL	20	100%
of which, Euro zone	7	35.6%
Germany	2	11.1%
Italy	2	11.0%
Cyprus	1	7.3%
USA	1	4.9%
UK	1	4.4%

Country	Imports	Share of total
TOTAL	60	100%
of which, Euro zone	31	51.2%
Germany	8	13.7%
Italy	8	12.7%
China	4	7.1%
France	4	5.7%
Netherlands	4	3.8%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** euro billions*
Sources: IHS Global Insight, Euler Hermes forecasts

Forecasts

GREECE		2009	2009	2010	2011	2012	09 09	12 09	03 10	06 10	09 10	12 10
GDP		100%	-2.3	-3.8	-2.2	0.9	-0.6	-1.7	-1.3	-0.3	-0.8	-0.2
Consumer spending		75%	-1.8	-4.1	-3.7	1.6	2.0	-6.4	-1.8	-1.0	-0.5	0.0
Public spending		18%	7.6	-8.8	-7.8	-5.5	-10.8	2.0	7.9	-9.0	-3.0	-2.0
Investment		19%	-11.4	-17.5	-6.9	2.2	-3.1	-9.5	-4.4	-1.4	-1.2	-0.3
Stocks	*	0%	-2.1	0.5	2.6	0.0	-1.6	3.9	-1.5	3.2	0.0	0.0
Exports		20%	-20.1	-1.1	-1.4	5.7	8.8	-3.9	-6.2	1.0	0.6	0.8
Imports		32%	-18.6	-12.3	-2.7	3.1	-1.0	-5.0	-7.5	3.9	-0.6	0.0
Net exports	*	-12%	2.2	3.7	0.5	0.3	2.0	0.7	0.9	-0.9	0.3	0.2
Current account	**		-25	-27	-21	-16						
Current account (% of GDP)			-10.6	-11.6	-9.4	-6.9						
Employment			-1.1	-2.4	-1.9	-0.3						
Unemployment rate			9.5	12.4	14.6	15.5						
Wages			5.9	1.8	0.6	0.6						
Inflation			1.2	4.3	2.0	0.4						
General government balance	**		-36	-19	-17	-15						
General government balance (% of GDP)			-15.4	-8.4	-7.5	-6.7						
Public debt (% of GDP)			127	148	164	171						
Nominal GDP	**		233	230	228	231						

United Kingdom

The recovery continues, with new driving forces

Overview

At the end of 2010, the British economy was performing better, with a base effect of +1.6% at the end of Q3, helped notably by a very encouraging Q2 (+1.2%), and positive signs for the two coming years (+1.7% growth in both 2011 and 2012). In 2010, the economy was fuelled by domestic demand (excluding stocks) that proved especially strong in Q2 (with its growth contribution up by +0.9% against Q1) and by a gradual improvement in foreign trade. Recovery should continue over the two next years, but with a structural change of the engines driving the economy. On the one hand, domestic demand should weaken in the face of budgetary consolidation efforts promised by the Cameron government for the next four to five years. But the trade balance should continue to improve, sustained by a rise in exports relative to imports, prolonging the trend observed since the start of the recovery. Growth should nonetheless remain below the forecasts set out in the budget (+2.3% in 2011 and +2.8% in 2012) due to less dynamic growth in the investment and household consumption components of domestic demand.

Monetary policy: a dovish bias on the part of the Bank of England

The Bank of England continues to take a dovish stance favourable to low interest rates, and at the end of December 2010 its lead rate remained anchored at 0.5%. While inflationary pressures are indeed present (+3.1% over the year 2010), compared to the euro zone (+1.5%), they are not yet likely to impact on the Bank's decisions insofar as these pressures should prove temporary and should ease in 2011 and 2012. After a rise in inflation in the short term, following the increase in VAT from 17.5% to 20%, inflationary pressures should indeed attenuate, settling at around 2%, due to a slowing in demand as a result of downward pressure on wages, and more broadly due to the persistence of surplus production capacities. However, these developments remain highly contingent on the course of commodity prices and their impact on import prices: a surge in import prices could exacerbate inflationary pressures and undermine the expected growth by maintaining inflation at high levels, thereby bringing the Bank of England to adopt a new position.

External sector: a more important role

The foreign trade sector should continue to profit from the strong depreciation in the pound between mid-2007 and start of 2010, during which time it fell by a third against the dollar and the euro. Since the end of the recession, exports have been increasing, with the trade balance improving and gradually becoming (relative to domestic demand) an increasingly important engine for British growth (with a growth impulse of +0.4% in Q3 2010, against -0.7% in Q1). This change in the structure of the growth drivers should persist over the two coming years. The net contribution of the country's external balance should remain positive, despite a reappreciation in the pound and a slowing in external demand.

Household demand: slowing

After a technical rebound in Q2 2010 (+0.7%), following very low consumption in Q1 that was marked by bad weather and an increase in the VAT rate, household consumption has slowed. It should grow at more moderate rates in 2011 and 2012 under the impact of budgetary consolidation policies leading to a slowing in nominal wages (following salary freezes in the public sector) and due to a rise in inflation brought about by the January 2011 VAT hike.

Businesses: an improving situation

All sectors of the economy seem to have profited from the recovery, especially construction, at the head of the pack with growth of 9.5% in Q2 2010 and 4% in Q3. In light of the improving economic indicators, the outlook remains positive across all sectors. Capacity utilisation rates are on an uptrend and promise a gradual recovery in investment rates. Nonetheless such developments will come slowly, with businesses constrained by weak sales (fragile household demand) and by a credit market that is struggling to revive.

Politics and budgets: dangerous austerity

The revival posted by the British economy for 2010 has cushioned the impact of the austerity regime and is allowing an improvement in public finances by lowering the deficit (to 9.9% of GDP in 2010, against 10.1% in 2009), after doubling from 2008 to 2009. Even so, the reforms undertaken during 2011, particularly the rise in the VAT rate, are likely to compromise the government's stated objective of cutting the deficit (by around 2 percentage points of GDP) by putting the brakes on the economy's still faltering recovery. This consideration is all the more important in that the tensions surrounding European sovereign debt have not gone away, focusing on the fragility of fiscal consolidation efforts (based on assumptions of realistic growth and, more broadly, about sovereign debt sustainability). ▣ *MI*

Election timetable

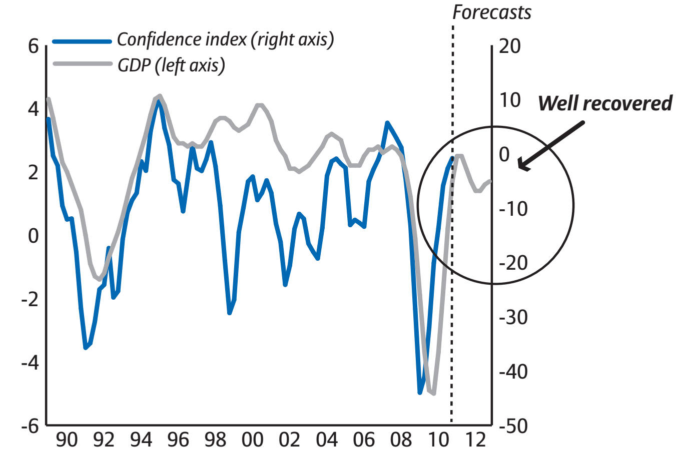
▶ **June 2015** at the latest: General Election – UK law allows the Prime Minister leeway in choosing the election date within a five-year term of office

Executive and legislature

▶ **Constitutional Monarchy**
▶ **Prime Minister:** David Cameron (Conservative)
▶ **House of Commons** (650 seats): Conservatives (306), Liberal Democrats (57), Labour (258), others (29)

Advanced indicator of the economy

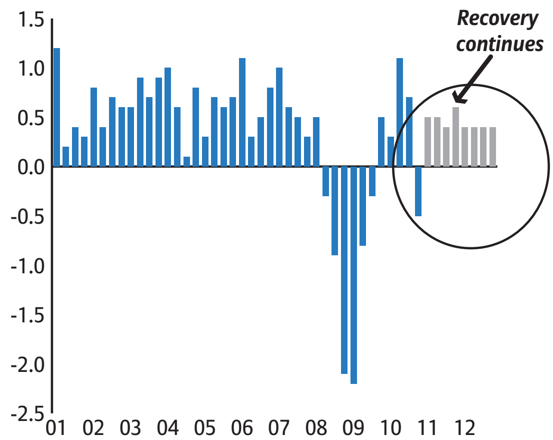
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

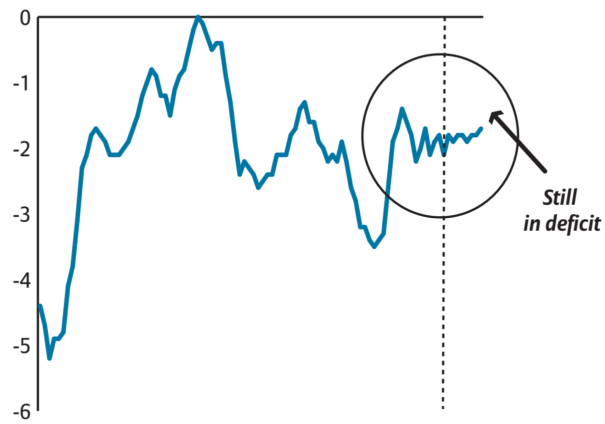
Country	Exports	Share of total
TOTAL	353	100%
of which, Euro zone	172	48.7%
USA	52	14.7%
Germany	39	11.1%
France	28	8.0%
Netherlands	27	7.8%
Ireland	24	6.9%

Country	Imports	Share of total
TOTAL	482	100%
of which, Euro zone	215	44.6%
Germany	62	12.9%
USA	47	9.7%
China	43	8.9%
Netherlands	33	6.9%
France	32	6.6%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** GBP billions*
Sources : IHS Global Insight, Euler Hermes forecasts

Forecasts

UNITED KINGDOM		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-4.9	1.4	1.5	1.9	0.3	1.1	0.7	-0.5	0.5	0.5
Consumer spending		65%	-3.2	0.7	0.4	1.3	-0.1	0.8	0.2	-1.4	0.5	0.4
Public spending		23%	1.0	1.0	-1.5	-1.0	0.7	0.6	-0.4	-1.0	-0.3	-0.3
Investment		15%	-15.3	2.5	4.6	5.2	2.9	1.2	3.0	-2.7	2.0	2.4
Construction		9%	-13.7	0.8	4.4	5.6	0.1	0.2	4.9	-3.1	2.0	2.0
Equipment		6%	-17.5	5.0	5.0	4.6	7.1	2.6	0.5	-2.1	2.0	3.0
Stocks	*	-1%	-1.3	1.0	0.4	0.0	0.6	0.1	0.3	0.2	0.0	0.0
Exports		26%	-10.1	5.0	4.8	6.0	-0.9	3.1	1.5	0.5	1.2	1.0
Imports		28%	-11.9	7.1	2.6	4.1	2.1	2.0	1.7	-2.3	1.5	1.0
Net exports	*	-2%	0.9	-0.7	0.5	0.4	-0.8	0.2	-0.1	0.8	-0.1	0.0
Current account	**		-24	-30	-28	-27						
Current account (% of GDP)			-1.7	-2.1	-1.8	-1.7						
Employment			-1.7	0.4	0.2	0.6						
Unemployment rate			7.7	8.1	8.4	8.3						
Wages			1.4	2.4	2.0	2.8						
Inflation			2.2	3.1	2.3	1.7						
General government balance	**		-157	-147	-124	-107						
General government balance (% of GDP)			-11.3	-10.1	-8.2	-6.9						
Public debt (% of GDP)			68	75	80	84						
Nominal GDP	**		1,395	1,454	1,506	1,560						

Sweden

A spectacular recovery

Overview

Economic recovery began slightly later in Sweden than in several OECD countries, but the upturn in activity has already proved to be among the most dynamic. Sweden has posted four successive quarters of sharp acceleration – from +0.9% in Q4 2009 to +2.1% in Q3 2010 – marking a major recovery from the low point of the world cycle (+7.1% to the end of September 2010), and guaranteeing a significant growth performance for 2010 (better than +5%, compared to -5.3% for 2009) as well as a noticeable base effect (+1.5%) for 2011. The initial factors behind the recovery (stimulus measures, the revival in world trade, and massive inventory building) risk rapidly losing steam, but the various positive effects of recovery on investment, employment and consumption continue to offer favourable prospects for the short term, bolstered by the latest economic indicators and confidence soundings, for this year and for 2012. In this context, likely to be accompanied by a normalisation in monetary policy, GDP growth should remain sufficiently balanced and solid (+3.4% in 2011 and +2.4% in 2012), to contribute to a rapid rehabilitation in public finances.

Monetary policy: a very gradual tightening

Sweden's central bank, the Riksbank, began to alter its policy in July 2010, after a year of status quo, and this has already brought four increases in its lead rate in the space of six months (from 0.25% to 1.25% in 2010). The process of gradual normalisation, after the succession of interest rate cuts made during the financial crisis (-450 bp), should continue over 2011 and 2012. The pace of this will remain moderate, given that inflationary pressures, including those on the wage front, should remain modest and compatible with the official inflation target (a band of ±1% around a central figure of 2%), helping to limit the impact on the Swedish krona exchange rate, which would undermine export competitiveness.

External sector: exports less buoyant than in 2010

The revival in exports from H2 2009, facilitated by the sharp fall in the Swedish krona (after dropping by 16% against the euro and 26% against the dollar during winter 2008-2009), was confirmed throughout 2010, both by volume (an expected +10.3%) and by value (+15%), although not yet marking a return to pre-crisis levels. The gradual reappreciation in the krona (at end of 2010 back to its summer 2008 levels) and, moreover, the easing in world demand will temper the rise in exports in 2011 (+6% by volume) and in 2012 (+5%). The net contribution of the foreign trade sector to growth should nonetheless remain positive on annual average.

Household demand: sustained

Household expenditure has contributed without pause to economic recovery since Q2 2009, fuelled initially by fiscal measures (tax cuts) and monetary policy (low interest rates), and then by the revival in employment begun at the end of 2009. The improvements still expected in 2011-12, on the unemployment and jobs front, with confidence indicators back at historically high levels at the end of 2010, should prolong strong consumption despite the wage moderation agreed in industry-wide settlements, notwithstanding a slight increase in inflation.

Businesses: not all out of the crisis

At the end of 2010, the revival in activity was overall favourable, with a clear jump in operating profits, the start of a fall in business insolvencies, and the resumption of employment and productive investment. The export and domestic outlook suggests only a slowing of this trend in 2011 and 2012. In 2010, the trend was very evident in construction, which recouped the fall in acitity recorded during the crisis, and even more evident in services, the latter already having returned to above its pre-crisis peak. Manufacturing industry, for its part, was still at its levels of mid-2003, despite a clear upturn (+8% since Q1 2009).

Politics and budgets: a minority coalition

The improvement of the economic situation should allow a rather fast recovery in public finances, which could give some room for manoeuvre to the coalition government, returned to power in September 2010 but which became a minority after an election that saw the nationalist Swedish Democrats win seats in the Riksdag. Sweden enjoyed a budget surplus over 2004-08 – before the impact of the crisis directly on government revenues and before the recovery measures taken in 2009 and 2010 (e.g., tax cuts, public expenditure increases, support for banks and for growth sectors) – and return to a budget surplus seems possible from 2012 onwards. ▣ *ML*

Election timetable

► **September** 2014: legislative elections

Executive and legislature

► **Parliamentary constitutional monarchy**

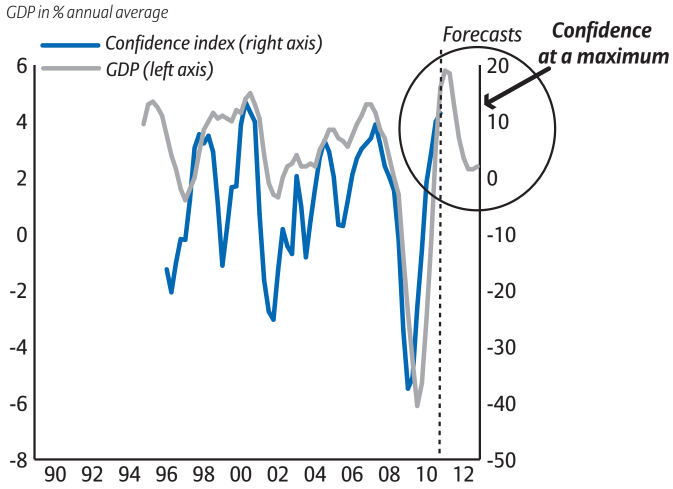
► **Head of State**: King Carl XVI Gustaf (since 1973)

► **Prime Minister**: Fredrik Reinfeldt

► **unicameral legislature** - Riksdag (349 seats): Social Democrats (112), Moderate Party (formerly the 'Right-wing Party', 107), Green Party (25), Liberal People's Party (24), Centre Party (23), Swedish Democrats (20), Left Party (ex-communists, 19)

Advanced indicator of the economy

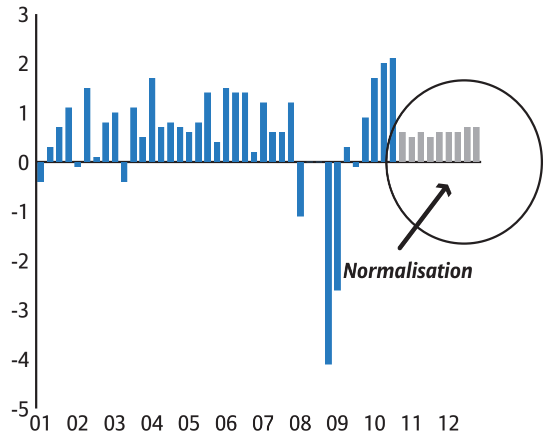
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

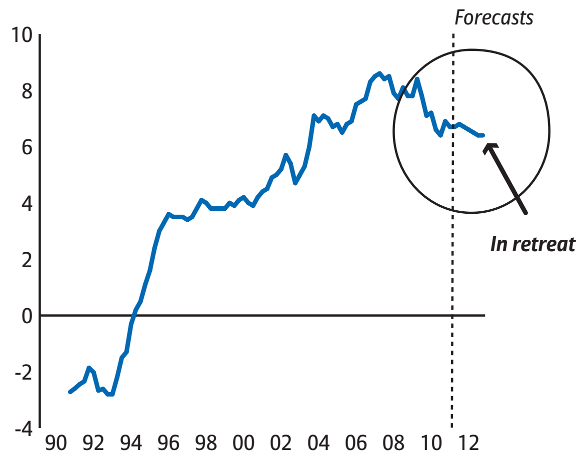
Country	Exports	Share of total
TOTAL	131	100%
of which, Euro zone	50	38.1%
Norway	14	10.6%
Germany	13	10.2%
UK	10	7.4%
Denmark	10	7.3%
Finland	8	6.4%

Country	Imports	Share of total
TOTAL	120	100%
of which, Euro zone	55	45.9%
Germany	21	17.9%
Denmark	11	8.9%
Norway	10	8.7%
Netherlands	7	6.2%
UK	7	5.6%

** USD billions: exports (FOB), imports (CIF)*
12-month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** SEK billions*
Sources: IHS Global Insight, Euler Hermes forecasts

Forecasts

SWEDEN		2009	2009	2010	2011	2012	03 10	06 10	09 10	12 10	03 11	06 11
GDP		100%	-5.3	5.2	3.4	2.4	1.7	2.0	2.1	0.6	0.5	0.6
Consumer spending		49%	-0.4	3.2	2.6	2.4	2.0	0.0	1.4	0.3	0.7	0.7
Public spending		28%	1.8	1.7	1.1	0.7	0.4	0.6	0.2	0.3	0.2	0.3
Investment		18%	-16.2	5.4	6.0	3.3	0.5	2.2	3.2	2.0	1.0	0.9
Construction		12%	-10.2	5.2	6.2	3.5	0.1	2.0	3.4	2.0	1.0	1.0
Equipment		5%	-27.5	6.0	5.3	2.6	1.5	2.7	2.6	2.0	1.0	0.5
Stocks	*	-1%	-1.4	2.1	0.5	0.0	0.7	0.8	0.6	0.0	0.0	0.0
Exports		48%	-13.3	10.6	5.8	4.2	3.1	5.5	3.1	1.3	0.7	0.7
Imports		42%	-13.4	12.2	5.8	3.8	4.0	4.7	3.1	1.3	0.8	0.8
Net exports	*	6%	-0.9	0.0	0.4	0.5	-0.2	0.7	0.2	0.1	0.0	0.0
Current account	**		220	226	231	233						
Current account (% of GDP)			7.1	6.9	6.7	6.4						
Employment			-2.3	0.9	1.1	0.7						
Unemployment rate	***		8.4	8.4	7.9	7.7						
Wages			1.0	2.2	2.2	2.7						
Inflation			-0.3	1.2	1.9	2.0						
General government balance	**		-28	-30	-10	15						
General government balance (% of GDP)			-0.9	-0.9	-0.3	0.4						
Public debt (% of GDP)			42	41	40	38						
Nominal GDP	**		3,089	3,290	3,473	3,642						

Brazil

A growth dynamic quickly proving unsustainable

Policy tightening

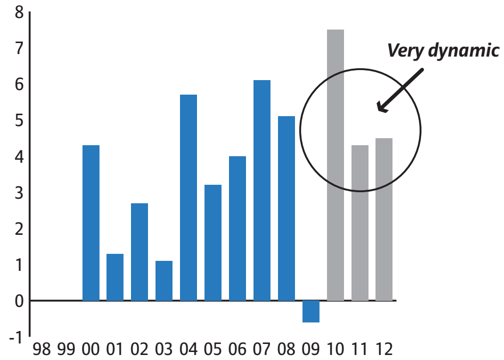
Real GDP growth slowed in Q3 2010 to 0.5% qtr/qtr (seasonally adjusted) from 1.8% in Q2, but was still up 6.7% yr/yr, and full year growth should be around 7.5%. Domestic demand has been the key driver, with both personal consumption and fixed investment growing strongly, the latter exceeding 20% yr/yr, albeit after contracting by 10% in 2009. The net export contribution turned negative as real growth in imports of goods and services far outstripped that of exports. Strong demand growth has been accompanied by higher inflation, which was up from a low of 4.2% yr/yr in October 2009 to 5.6% in November 2010, the upper part of the 4.5% +/-2% target range. Monetary policy has been tightened as a result, with the policy interest rate (SELIC) having been increased in stages from a record low of 8.75% to 10.75% in July, where it has remained. The primary fiscal surplus target for 2010 was raised to 3.3% of GDP, and in Jan-Nov the actual surplus was 2.7%, compared with 2.2% in the same period of 2009. The overall fiscal deficit was 2.6% of GDP in Jan-Nov (3.2% Jan-Nov 2009). Net public debt, which increased as a proportion of GDP to 42.8% at end-2009, declined to 40.1% in November 2010. The trade surplus fell in 2010, as imports surged, outpacing relatively strong growth in the value of exports, particularly primary products, and on a rolling 12-months basis the current account deficit in November widened to 2.4% of GDP (against 1.8% in the same period of 2009). Nonetheless, the exchange rate has remained generally strong in 2010, with attendant appreciation of the real effective exchange rate and potential drag on real export growth. Indeed the inflow of capital as been so strong that restrictive measures to curb these flows have been required. Foreign exchange reserves have continued to rise and cover around 200% of the sum of the estimated current account deficit for 2011 plus principal repayments on medium-term plus short term debt outstanding at end-2010.

New president, growth to moderate

In 2011 growth can be expected to moderate to around 4.3%, as base effects which partly account for the surge in 2010 fall away, policy tightening takes effect and global demand grows less strongly. Inflation should also begin to moderate, though further modest monetary tightening is likely in H1 2011. The external balance should remain robust, though the current account deficit could widen to 2.6% of GDP for the year, and public debt ratios should remain manageable. In 2012 growth of around 4.5% is likely to be sustained, inflation remain under control and any widening of the current account deficit contained, ensuring a manageable external balance overall. Indeed, in the near term the external headache facing the authorities continues to be strong capital inflows, though such flows could also reverse quickly in the event of a return to global risk aversion. Dilma Roussef, the ruling PT candidate and chosen successor of outgoing president, Lula da Silva, who was not permitted to stand for a third consecutive term, won presidential elections in October 2010 comfortably enough, though a second round runoff was required. President Roussef, who benefited strongly from Lula's extraordinary popularity, is likely to continue the broad thrust of her predecessor's policies, though in the short-term early indications are that there will be some fiscal consolidation, which is necessary to take the pressure off interest rates. ■ *DA*

GDP

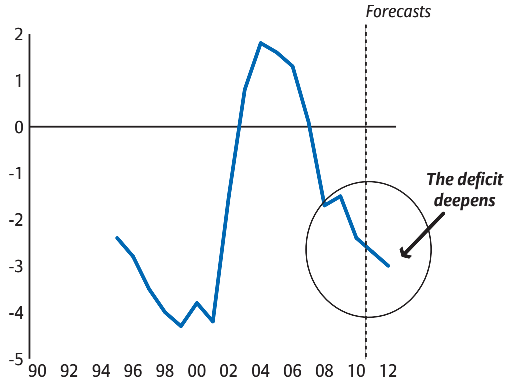
GDP in % annual average



Sources: IHS Global Insight, prévisions Euler Hermes CRU

Current account balance

as % of GDP



Sources: IHS Global Insight, prévisions Euler Hermes CRU

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth*
*** Real billions ***nominal public sector borrowing requirement*
Sources: IHS Global Insight, National data, IMF, Euler Hermes CRU forecasts

Forecasts

BRAZIL		2009	2010	2011	2012
GDP		-0.2	7.5	4.3	4.5
Consumer spending		4.1	8.0	4.5	4.8
Public spending		3.7	5.0	4.0	4.0
Investment		-9.9	17.5	9.0	9.3
Stocks	*	-2.0	0.5	0.0	0.0
Exports		-10.3	10.0	6.5	7.0
Imports		-11.4	29.0	12.0	12.5
Net exports	*	0.1	-2.0	-0.8	-0.9
Current account		-49	-85	-107	-129
Current account (% of GDP)		-1.5	-2.4	-2.7	-3.0
Inflation		4.9	5.0	5.2	4.9
General government balance **/***		-104	-89	-97	-98
General government balance (% of GDP)		-3.3	-2.5	-2.5	-2.3
Public debt (% of GDP)		63	60	60	59
Nominal GDP	**	3,143	3,539	3,886	4,251

China

Towards more balanced growth

Growth moderating

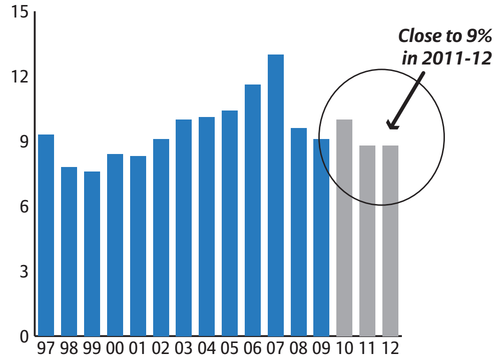
Real GDP growth slowed to 9.3% yr/yr in Q3 and is likely to be around 10% in full year 2010. Both consumer spending and fixed investment have maintained a brisk pace, though both will have eased from 2009, particularly investment which was the main driver of 2009. The net export contribution also will have been positive in 2010, in contrast to 2009, as export growth recovered strongly, following a sharp contraction in the previous year. With growth exceeding official government objectives, inflation has moved more into focus during 2010 as the main policy emphasis. The CPI increased by 5.1% yr/yr in November and the annual average rate expected in 2010 at 3.3% is above the 3% objective. Much of the acceleration has been generated by the food component of the index, particularly fresh vegetables, pressures from which have now begun to recede. Non-food price increases remain fairly low at 1.9% yr/yr in November, though the pace has quickened. Monetary policy has been tightened through closer observance of lending quotas (though the credit growth target for the year was exceeded by November), increased reserve requirement, and interest rate rises, the latest rate hike (25bps) coming in late December in 2010. Measures have also been taken to stem real estate price increases. Overall monetary policy has been shifted officially to 'prudent'. More directly, incentives for automobiles and domestic appliances have been eliminated. The fiscal deficit remains modest and may be less than 2% in 2010, as most of the fiscal expansion in 2009-10 was through quasi-fiscal lending. Exports and imports have both grown strongly in 2010, though the trade and current account surpluses as a proportion of GDP probably narrowed slightly with the latter running at just over 6%. In mid-2010 the authorities announced the resumption of some exchange rate flexibility, ending the hard peg to the USD re-introduced during the global financial crisis. The exchange appreciated by 3% in H2 2010 in two significant moves – 2% in September and 1% during November, the latter ahead of the G20 summit meeting. Foreign exchange reserves continued to accumulate.

Inflation more in focus

Growth in 2011 is likely to be just under 9%, followed by a similar pace in 2012, as the global recovery moderates and monetary tightening takes hold. Inflationary pressures at this point do not suggest that the authorities will be overly-aggressive in tightening credit, though further interest rate increases can be expected as part of managing expectations and there are indications that the overall bank lending target will be replaced by a differential reserve requirement system. The fiscal stimulus will also fade, though fiscal policy will remain generally supportive. Official targets for 2011 of 8% real GDP growth and 4% annual average inflation reinforce the focus on inflation, but the authorities probably will tack cautiously between tighter and looser policy and are likely to move quickly to reverse either, as and when necessary. The current account surplus is set to rise again in 2011-12 as a proportion of GDP and FX reserves can be expected to continue to increase, complicating monetary targets and maintaining trade tensions with the US. The exchange rate may appreciate a little faster in 2011-12, to offset trade and inflation pressures, though the overall exchange rate stance will remain cautious, given uncertainties over the outlook for global demand. Medium-term policy remains focused on rebalancing the economy towards domestic consumption and implementation of reforms necessary to achieve this. ▣ *DA*

GDP

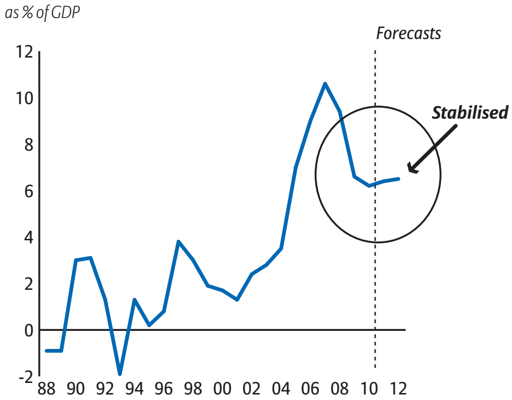
GDP in % annual average



Sources: IHS Global Insight, prévisions Euler Hermes CRU

Current account balance

as % of GDP



Sources: IHS Global Insight, prévisions Euler Hermes CRU

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth*
*** Yuan billions (CHY)*
Sources: Economist Intelligence Unit, ADB, World Bank, Euler Hermes forecasts
Forecasts

CHINA		2009	2010	2011	2012
GDP		9.1	10.0	8.8	8.8
Consumer spending		10.4	9.6	9.7	9.5
Public spending		7.2	7.5	7.6	7.7
Investment		21.2	10.5	9.5	9.3
Stocks	*	-0.2	0.1	0.0	0.0
Exports		-9.1	13.0	9.3	9.6
Imports		-2.7	12.0	9.5	9.5
Net exports	*	-3.8	1.1	0.4	0.6
Current account	**	2,029	2,136	2,475	2,825
Current account (% of GDP)		6.6	6.2	6.4	6.5
Inflation		-0.7	3.2	3.5	3.5
General government balance	**	-939	-683	-681	-767
General government balance (% of GDP)		-2.8	-1.8	-1.6	-1.6
Public debt (% of GDP)		18.0	19..0	20.0	20.0
Nominal GDP	**	33,535	37,962	42,593	47,971

India

Economic outlook remains strong

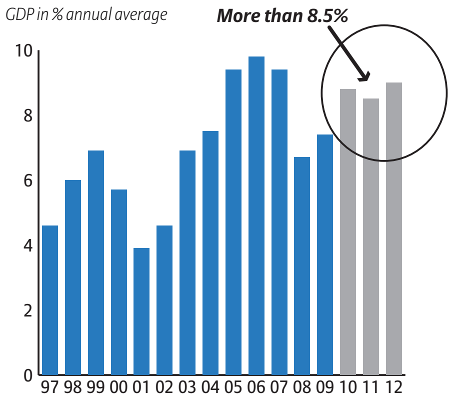
Despite policy tightening, strong growth continues…

GDP growth in the second quarter of the fiscal year 2010 (calendar Q3) was higher than expected at 8.9% yr/yr, with both manufacturing (9.8%) and construction (8.8%, with a Commonwealth Games boost) driving expansion. At the same time, FY Q1 (April-June) GDP growth, which was boosted by an improved contribution from agriculture (increased production after good monsoon rains), was revised upwards, also to 8.9% (previously 8.8%), suggesting that the official forecast of 8.5-8.75% real GDP expansion for 2010/11 (after 7.4% in 2009/10) should be met. Indeed, recent PMI surveys indicate the likelihood of continuing expansion in the industrial sector and overall growth could be even higher. However, government stimulus programmes are being withdrawn, inventories have been rebuilt and export growth should ease, so household spending and business investment need to take up the momentum in the short term. Meanwhile, inflationary pressures are now easing (the Wholesale Price Index, which is used for official target setting, was up 7.5% yr/yr in November, compared with 8.6% yr/yr in October) but growth in prices remains a policy concern (the official comfort zone is 5%-6%) and further monetary tightening can be expected. In November, the central bank increased its key policy rates by 25 bps—the repo was increased to 6.25% and the reverse repo to 5.25%. With the authorities' explicit target of lowering inflation to 6% by March 2011 and growth not showing any signs of being choked by nominally-higher interest rates, the current round of monetary tightening appears to have even further to run. It is also likely that there will be further rupee appreciation, reflecting strong capital inflows that, in turn, partly reflect investor differential among emerging markets in favour of those with a relatively lower export dependency in what is expected to be a generally weak global upswing in 2011-12.

…and will prevail into 2012, albeit hampered by structural impediments

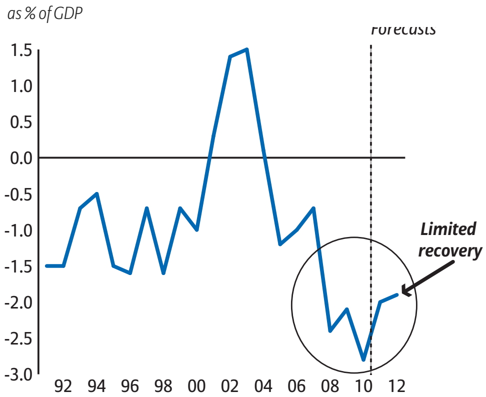
We now forecast real GDP growth of 8.8% in 2010/11 and 8.5% in 2011/12, with a possibility that these may prove conservative outlooks. In 2012/13, the pace of growth could reach 9% and may, at that stage, be higher than China's. Nevertheless, potential growth will remain constrained by weak infrastructure, bureaucratic regulations in some sectors, shortages of skilled labour and dependence on rain-fed (uncertain monsoon) agriculture. Given improvements in these areas and a stronger global environment and correct policy implementation, India has the potential for double-digit growth, although we do not currently include this in our central forecasts. Inflationary pressures should abate, at least in the earlier part of the forecast period, with growth in producer prices falling from an average 9.1% in 2010 to around 5% in 2011. The current account deficit is forecast to remain nominally large, at an annual USD35-50bn in 2010-12, but will be equivalent to 2% of GDP and comfortably financed, partly through capital inflows, which are unlikely to be damaged unduly because of recent high-profile allegations of corporate and state corruption. Net inflows will allow further accumulation of foreign exchange reserves, which, at USD 269bn (end-October 2010) already provide import cover of over 12 months and exceed the total stock of foreign debt. Despite concerns in the wider South Asia region and continuing internal uncertainties (including a localised Maoist rebellion), domestic stability is likely to prevail, with relative political continuity in the forecast period. ■ *AA*

GDP



Sources: IHS Global Insight, prévisions Euler Hermes CRU

Current account balance



Sources: IHS Global Insight, prévisions Euler Hermes CRU

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth*
*** Rupee billions*
Sources: IHS Global Insight, National data, IMF, Euler Hermes CRU forecasts
Forecasts: 2010, 2011, 2012

INDIA		2009	2009	2010	2011	2012
GDP		100%	7.4	8.8	8.5	9.0
Consumer spending		58%	4.3	5.2	6.0	7.0
Public spending		12%	11.7	11.4	10.0	8.0
Investment		33%	6.9	9.7	12.0	12.5
Stocks	*	1%	0.1	0.6	0.2	-0.1
Exports		21%	-6.0	14.0	12.5	12.5
Imports		26%	-9.0	9.0	12.0	13.0
Net exports	*	-4%	1.1	0.6	-0.4	-0.1
Current account	**		-1,300	-2,000	-1,650	-1,750
Current account (% of GDP)			-2.1	-2.8	-2.0	-1.9
Unemployment rate			10.7	10.8	10.6	10.5
Inflation			2.1	9.1	5.1	4.5
General government balance	**		-6,000	-4,750	-5,000	-5,500
General government balance (% of GDP)			-9.6	-6.5	-6.0	-5.8
Public debt (% of GDP)			57	56	56	55
Nominal GDP	**		62,312	72,621	82,650	94,500

Russia

Reliant on global recovery and oil prices

Moderate recovery in 2010

The economy has recovered moderately in the first three quarters of 2010, with real GDP expanding by an estimated 3.6% yr/yr – 3.1% yr/yr in Q1, 5.2% in Q2 but only 2.7% in Q3. And after four quarters of positive qtr/qtr growth, real GDP contracted by an estimated 0.7% in Q3. Growth was mainly driven by domestic demand, but inventory restocking and base effects supported the outcome strongly, especially in the first half. The contribution of net trade to growth shifted into negative in Q2 as export expansion has rapidly lost momentum during 2010. Nominal merchandise export growth declined from 61% yr/yr in Q1 to 43% in Q2 and 18% in Q3. At the same time, import growth accelerated from 19% yr/yr in Q1 to 32% in Q2 and 39% in Q3. The slowdown in Q3 also reflected the impact of the heat wave (drought, wildfires) in July-August which disrupted output in agriculture and several industries. The expansion of industrial output declined from an average 10.2% yr/yr in H1 to 6.4% in Q3 and growth of agriculture shifted from 1.9% in H1 to -16.9% in Q3. Drought-related food price increases boosted headline inflation to 8.1% yr/yr in November from a record low of 5.5% in July 2010. The central bank has kept the benchmark refinancing rate unchanged at 7.75% since June 2010. Meanwhile, nominal borrowing costs for firms have fallen – the average rate on short-term RUB loans to firms fell to 10% in Q3 2010 from 12.8% in Q1 – and private sector credit growth has picked up to 9.5% yr/yr in Q3 from -1.1% in Q1. The RUB has traded fairly stable at around 35 ± 5% against the USD-EUR basket, well within the targeted trading band of 26-41 set by the central bank. The fiscal deficit is expected to narrow from 6.2% of GDP in 2009 to about 5% in 2010 thanks to the withdrawal of some fiscal stimulus and improving revenues. Deficit financing through drawing on the Reserve Fund – created for difficult times in earlier years of high energy revenues – has halted in May 2010 as the government has regained access to domestic and international bond markets on favourable terms. The external position has remained solid. The current account surplus will be favourable at around 4% of GDP in 2010. Official foreign exchange reserves stood at a healthy USD 438bn in November 2010, sufficient to cover 16 months of imports and more than three times all external debt payments falling due in 2011. Gross external debt amounts to almost USD 500bn which, however, appears adequate in relation to GDP (about 35%) or export earnings (116%).

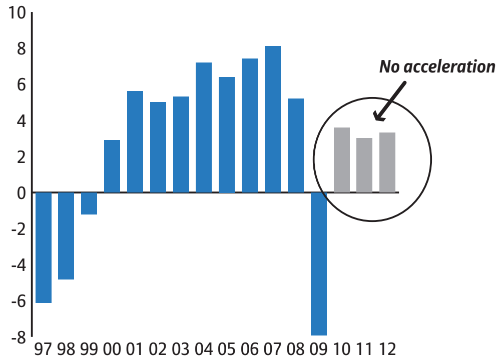
Growth will remain sluggish

The economy should regain some momentum in Q4 2010 after the weak Q3, resulting in full-year growth of about 3.6%. But the pace of growth is forecast to moderate to 3% in 2011, as base effects have faded and external demand will ease owing to slowing global growth, before picking up to 3.3% in 2012. Inflation is projected to average about 7% in 2011-2012. The exchange rate of the RUB should remain within the 26-41 trading band against the USD-EUR basket in 2011. The fiscal deficit is forecast to decline to about 4.3% of GDP in 2011 and 3.5% in 2012. The current account surplus is expected to narrow to 3.3% of GDP in 2011 and 2.5% in 2012. The overall external debt burden will remain manageable, however some companies may continue to struggle to refinance maturing external debt. Generally, the economy remains over-reliant on commodities, especially on oil and gas. Downside risks to the outlook would rise if the average price for Urals Blend were to fall below USD70/barrel.

▣ *MS*

GDP

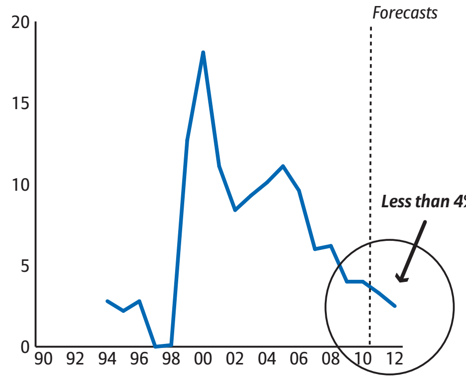
GDP in % annual average



Sources: IHS Global Insight, prévisions Euler Hermes CRU

Current account balance

as % of GDP



Sources: IHS Global Insight, prévisions Euler Hermes CRU

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth*
*** RUB billions*
Sources: IHS Global Insight, National data, IMF, Euler Hermes CRU forecasts
Forecasts

RUSSIE		2009	2009	2010	2011	2012
GDP		100%	-7.9	3.6	3.0	3.3
Consumer spending		62%	-7.7	4.0	3.8	4.0
Public spending		16%	2.0	2.5	2.0	2.5
Investment		23%	-15.7	3.0	5.5	6.0
Stocks	*	-2%	-11.2	5.0	1.3	0.5
Exports		35%	-4.7	5.0	4.0	6.0
Imports		32%	-30.4	18.0	11.0	12.0
Net exports	*	3%	11.4	-4.9	-2.2	-1.5
Current account	**		1572	1756	1591	1328
Current account (% of GDP)			4.0	4.0	3.3	2.5
Employment			-2.2	1.0	1.1	1.0
Unemployment rate			8.4	7.5	7.3	7.1
Wages			-3.5	4.5	4.2	4.5
Inflation			11.7	6.7	7.3	6.8
General govt balance	**		-2445	-2179	-2071	-1859
General govt balance (% of GDP)			-6.2	-5.0	-4.3	-3.5
Public debt (% of GDP)			11	12	13	15
Nominal GDP	**		39,398	43,576	48,163	53,102

Spotlight

on Country Risk

World leader in credit insurance, the Euler Hermes group continuously monitors country risk across the globe. The group has developed a methodology that combines both political and economic analysis. This produces country ratings in six categories, from the safest to potentially the most risky. We offer here a detailed table of risk ratings for the world's biggest economies (out of 241 rated) and a mapping of these risks for developing and emerging economies.
While in 2008 and 2009 all revisions in these rankings were downwards, over 2010, by contrast, our revisions were all upwards. Five countries were upgraded to AA in H1: Cyprus, Malta, Slovakia, Slovenia and Singapre. In H2, eight countries were upgraded: Estonia (BB), Peru (BB), Poland (BB), Guatemala (B), Jordan (B), Angola (C), Guyana (C) and Zambia (C). In January 2011, Tunisia was downgraded (B).

Definition of Euler Hermes country ratings

EH rating	Number of countries*	% of world GDP 2008	Definition
AA	39	66.1	Very low external transfer & convertibility risk and very strong business environment
A	36	1.5	Low external transfer & convertibility risk and strong business environment
BB	22	9.5	Moderate external transfer & convertibility risk and sound, above average business environment
B	18	12.3	Significant external transfer & convertibility risk and below average business environment
C	46	6.0	High external transfer & convertibility risk and well below average business environment
D	80	4.7	Very high external transfer & convertibility risk and weak business environment

** as of January 28, 2011*

Country Risk Ratings: a note on methodology

There are three central elements to the assessment:

▶ **Macroeconomic imbalances**
These include: structure of economy, fiscal and monetary policy, debt, external balance, banking system stability.

▶ **The institutional/business framework**
This includes: regulatory & legal framework, rule of law, banking system, infrastructure, bureaucracy, corporate governance, corruption, human development.

▶ **Systemic political stability and government effectiveness**
This includes: mechanisms for orderly transfers of power and succession process, concentration of power, effective policymaking, independence of institutions, social cohesion, international relations.

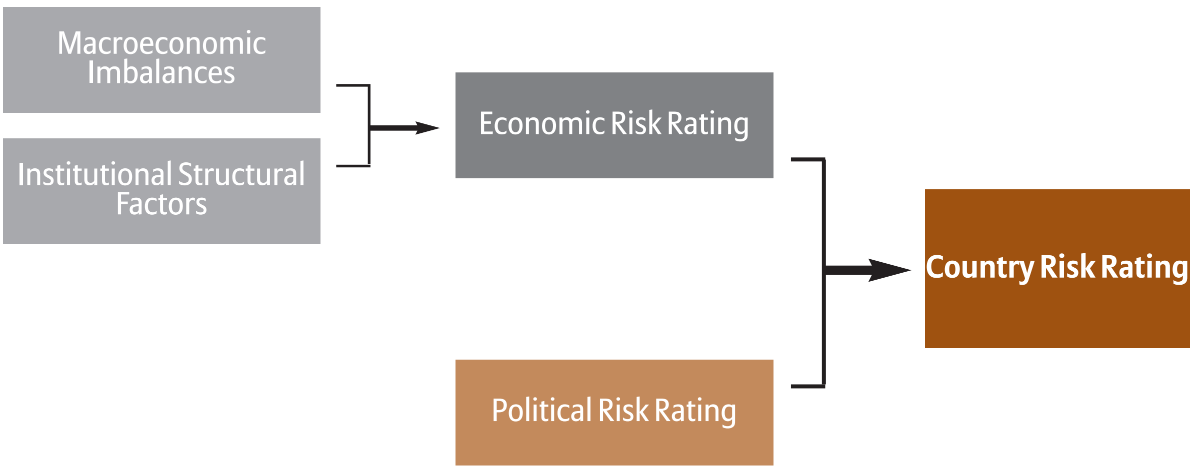
The first two elements form sub-sectors of an Economic Risk Rating assigned to each country on a scale of 1-6, where 1 is the lowest and 6 the highest risk. The third element forms a Political Risk Rating on a scale of 1, 2+, 2-, 3+, 3-, 4, where 1 is the lowest and 4 the highest risk. The Economic Risk and Political Risk Ratings are then combined to form the Country Risk Rating. The various combinations are shown in the matrix to the right. Whichever of the two ratings is the highest risk determines the overall grade.

It is important to note, however, that there are strong areas of overlap in these three elements. For example, systemic political stability and government effectiveness clearly impact on macroeconomic imbalances and the institutional/business framework and vice versa. Equally, there are feedback loops between macroeconomic imbalances and the institutional/business framework. Systemic political stability and government effectiveness are also related.

Increasing political risk →

Increasing economic risk ↓

	P1	P2+	P2-	P3+	P3-	P4
E1	AA	A	BB	B	C	D
E2	A	A	BB	B	C	D
E3	BB	BB	BB	B	C	D
E4	B	B	B	B	C	D
E5	C	C	C	C	C	D
E6	D	D	D	D	D	D



Spotlight
on Country Risk

Middle East and North Africa

Regional GDP growth is forecast at 4% or over in 2011 and 2012, supported by state priming, particularly in relation to infrastructure, health and education expenditure outlays buoyed by high oil and gas revenues.

Rates of expansion would be markedly higher if growth in one of the region's major economies, Iran, was not restricted by sanctions and uncertain policy management. Relations between Tehran and the west will continue to provide tensions, as will developments in Iraq, Lebanon and Yemen. Moreover, Israeli-Palestinian relations appear unlikely to improve significantly in the short term. Qatar (liquefied natural gas output), Lebanon (subject to security concerns) and Iraq (reconstruction and crude oil output) are forecast to grow strongly but economies in North Africa will not expand to potential in the early part of the period because of close links with a lacklustre EU recovery and because of political and social troubles (Tunisia, Egypt). The UAE's GDP growth will recover some momentum. ▣

Central, Eastern Europe and Russia

The region as a whole returned to moderate growth of around 3.5% in 2010, but the pace of expansion will slow to 3.1% in 2011, before picking up to 3.5% in 2012.

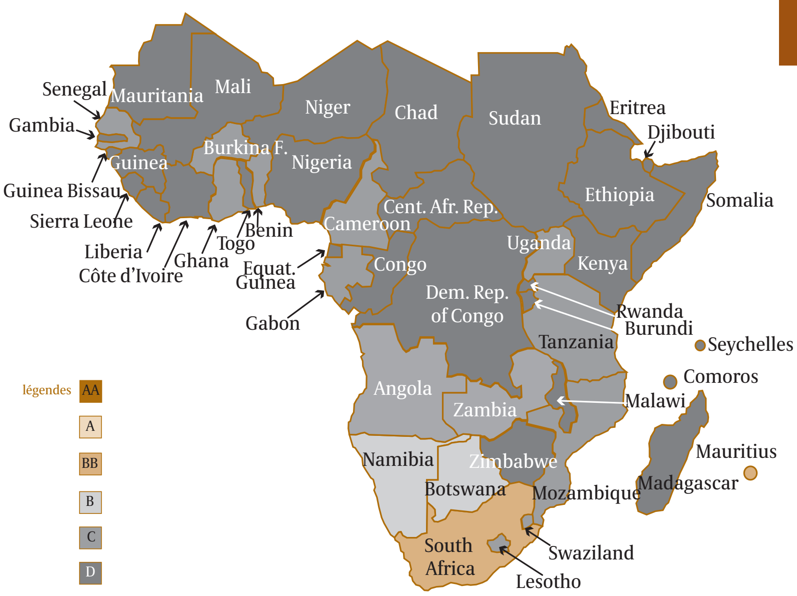
Turkey grew strongest in 2010, recording 8.9% yr/yr in Q1-Q3, but growth slowed to 5.5% in Q3 from 11% in H1 as external trade deteriorated sharply. Rising macroeconomic imbalances that could threaten exchange rate stability are a concern with Turkey. Growth in Russia moderated from 4.1% in H1 to 2.7% in Q3 as a result of the impact of a severe heat wave, but the economy should perform broadly in line with the regional pattern in 2010-2012. Poland was upgraded to BB, reflecting robust growth and solid macroeconomic fundamentals. Sharp but necessary austerity measures have taken their toll in Romania, Bulgaria, Latvia and Croatia, which continued to contract in 2010 and will grow below average in 2011. Hungary's introduction of controversial "crisis taxes" on specific sectors may backfire if investor sentiment deteriorates. ▣

Latin America and Caribbean

Brazil's economy will have grown by around 7.5% in 2010, which, along with the popularity of outgoing president, Lula da Silva, ensured the success of his chosen successor, Dilma Roussef, in the October elections.

Policy tightening will moderate growth in 2011 to around 4.3%. In Mexico recovery is underway and should be sustained in 2011. Commodity producing countries with sound monetary and fiscal policies, such as Chile and Peru, continue to perform well, though in Peru presidential elections due in April 2011 inject a degree of uncertainty. Argentina has opened discussions with the Paris Club, the final element in normalising creditor relations, though an agreement could take some time. Presidential elections are due in Argentina in October 2011. In Venezuela President Chavez is to rule by decree for 18 months, allowing him to by-pass the newly elected National Assembly in which the opposition has a bigger voice. Meanwhile, Venezuela remains the only major economy in the region in recession. ▣

Sub-Saharan Africa



Regional GDP growth is forecast at 5%-6% in 2011 and 2012, thereby suggesting a rapid reversion to the strong annual expansion recorded in the pre-global crisis period.

Much of this will reflect strong demand for primary resources (energy, metals and soft commodities) and inward foreign investment in related sectors, particularly from Asia. Those recording strong growth will include Ghana (oil production should enable double-digit expansion of GDP in 2011), Zambia (copper) and members of the East African Community (export commodities and greater integration). The region's largest economy, South Africa, will grow by an annual 3%-5% but the next largest, Nigeria, with the potential for annual growth of 5%-8%, has elections early in 2011, and prospects depend on their successful outcome. Côte d'Ivoire, with continuing dispute over recent elections, and Sudan, with a referendum in the south that may result in the country splitting, represent areas of high tension and risk of hostilities. ▣

Spotlight
on Country Risk

South, Central and East Asia

With the policy focus giving more emphasis to inflation, China's growth is set to moderate to just under 9% in 2011-12 from around 10% in 2009, but that should still provide momentum for regional and global growth.

After a very strong 2010 (+10%) expansion, growth in Taiwan is likely to moderate to around 4%. South Korea's strong recovery moderated through the course of 2010, and growth will slow to 3.5%-4% in 2011-2012 from 5.5% in 2010. Tensions over North Korea have resurfaced. ASEAN grew by around 7% in 2010, well above the 5.8% trend growth in 2002-2007, but growth will moderate to around 5% in 2011 as external demand eases and base effects wane. Political instability remains a threat in Thailand. GDP growth in India remains strong, with 8.5% and 9% forecast for 2011 and 2012 (matching or perhaps exceeding that of China in the latter year), after 8.8% in 2010. Elsewhere in South Asia, Sri Lanka should grow strongly (6%-7% annually), reflecting an improved security environment. ▣

Population, GDP and risk rating

	POPULATION 2009 *(millions)*	% OF WORLD total	GDP 2009 *($ billions)*	% OF WORLD total	GDP PER CAPITA ($) 2009	AVERAGE 2009 EXCHANGE RATE *(units per $1.00)*	EH RATING**
North America	341.2	5.0	15 455.1	25.9	45,298	45,129	AA
USA	307.4	4.5	14 119.1	24.4	45,934	45,934	AA
Canada	33.7	0.5	1 336.1	2.3	39,658	37,947	AA
Western Europe	407.6	6.0	16,087.4	29.3	39,469	33,279	AA
Germany	81.8	1.2	3,338.7	5.8	40,832	34,388	AA
France	62.6	0.9	2,656.4	4.6	42,412	33,434	AA
UK	61.8	0.9	2,178.9	3.8	35,258	34,388	AA
Italy	59.8	0.9	2,118.3	3.7	35,435	29,068	AA
Spain	45.8	0.7	1,467.9	2.5	32,030	29,625	AA
Netherlands	16.5	0.2	796.7	1.4	48,209	39,877	AA
Switzerland	7.7	0.1	491.9	0.9	63,540	40,484	AA
Belgium	10.8	0.2	472.1	0.8	43,794	35,534	AA
Sweden	9.3	0.1	406.1	0.7	43,668	35,951	AA
Austria	8.4	0.1	382.1	0.7	45,686	38,567	AA
Norway	4.8	0.1	378.6	0.7	78,173	51,985	AA
Greece	11.2	0.2	330.8	0.6	29,634	29,839	AA
Denmark	5.5	0.1	310.1	0.5	56,268	35,828	AA
Finland	5.4	0.1	238.6	0.4	44,583	33,445	AA
Portugal	10.6	0.2	233.5	0.4	21,970	22,671	AA
Ireland	4.5	0.1	222.4	0.4	49,867	38,685	AA
Luxembourg	0.5	0.0	52.4	0.1	105,923	78,409	AA
Iceland	0.3	0.0	12.1	0.0	38,050	37,853	D
Japan	127.6	1.9	5,068.9	8.8	39,740	32,554	AA
South. Central and East Asia	3,698.1	54.6	9,621.1	15.3	2,602	5,091	B
China	1,334.7	19.7	4,984.7	8.6	3,735	6,778	B
India	1,199.1	17.7	1,236.9	2.1	1,032	3,015	B
South Korea	48.8	0.7	832.5	1.4	17,074	27,938	BB
Indonesia	231.5	3.4	539.4	0.9	2,329	4,151	C
Taiwan	23.1	0.3	378.5	0.7	16,372	31,776	A
Thailand	67.0	1.0	264.0	0.5	3,941	8,051	B
Hong Kong	7.1	0.1	210.6	0.4	29,805	42,653	A
Malaysia	27.8	0.4	193.0	0.3	6,951	4,587	A
Singapore	5.0	0.1	182.2	0.3	36,381	50,180	AA
Pakistan	163.8	2.4	162.0	0.3	989	2,683	D
Philippines	92.2	1.4	161.2	0.3	1,748	3,516	B
Kazakhstan	15.6	0.2	107.9	0.2	6,930	11,679	D
Bangladesh	162.2	2.4	94.6	0.2	583	1,487	D
Vietnam	87.2	1.3	93.2	0.2	1,068	2,942	D
Sri Lanka	20.2	0.3	42.2	0.1	2,085	4,764	C
Myanmar	60.0	0.9	34.3	0.1	571	1,197	D
Uzbekistan	27.9	0.4	32.8	0.1	1,176	2,808	D
Afghanistan	28.9	0.4	14.5	0.0	501	934	D
Nepal	27.9	0.4	12.9	0.0	462	1,215	D
Cambodia	14.1	0.2	10.9	0.0	768	1,993	D
Brunei	0.4	0.0	10.4	0.0	25,378	47,930	BB
Laos	6.3	0.1	5.6	0.0	886	2,286	D
Tajikistan	7.5	0.1	5.0	0.0	667	1,827	D
Kyrgyzstan	5.4	0.1	4.6	0.0	851	2,250	D
Mongolia	2.7	0.0	4.2	0.0	1 551	3,456	D
Maldives	0.3	0.0	1.3	0.0	4 149	933	D
Bhutan	0.7	0.0	1.3	0.0	1 880	5,212	C
East Timor	1.1	0.0	0.6	0.0	499	2,522	D

** average rating using GDP weighting* *** EH rating as of January 28, 2011*
Source: Euler Hermes

Population, GDP and risk rating

	POPULATION 2009 *(millions)*	% OF WORLD total	GDP 2009 *($ billions)*	% OF WORLD total	GDP PER CAPITA ($) 2009	AVERAGE 2009 EXCHANGE RATE *(units per $1.00)*	EH RATING**
Latin America	561.4	8.3	3,964.8	7.0	7,063	10,570	B
Brazil	191.5	2.8	1,574.0	2.7	8,220	10,499	BB
Mexico	107.6	1.6	874.8	1.5	8,134	13,609	BB
Venezuela	28.6	0.4	325.7	0.6	11,383	12,184	D
Argentina	40.1	0.6	310.1	0.5	7,726	14,525	D
Colombia	45.0	0.7	232.4	0.4	5,167	9,046	B
Chile	17.0	0.3	161.6	0.3	9,516	14,316	A
Peru	29.1	0.4	126.8	0.2	4,356	8,626	BB
Ecuador	14.1	0.2	55.6	0.1	3,935	7,765	D
Dominican Republic	9.7	0.1	46.7	0.1	4,816	8,269	C
Guatemala	14.0	0.2	37.7	0.1	2,688	4,831	B
Uruguay	3.3	0.0	31.5	0.1	9,420	13,144	B
Costa Rica	4.6	0.1	29.3	0.1	6,346	10,564	B
Panama	3.5	0.1	24.9	0.0	7,174	11,776	B
El Salvador	5.8	0.1	21.1	0.0	3,623	7,355	B
Trinidad and Tobago	1.2	0.0	19.6	0.0	15,982	-	BB
Bolivia	10.2	0.2	17.5	0.0	1,708	4,451	D
Honduras	7.5	0.1	14.3	0.0	1,911	4,344	C
Paraguay	6.3	0.1	14.2	0.0	2,265	4,560	C
Jamaica	2.7	0.0	12.6	0.0	4,683	8,804	D
Bahamas	0.3	0.0	7.4	0.0	21,633	25,807	BB
Central and Eastern Europe	412.7	6.1	3,443.9	7.1	8,346	13,423	C
Russia	141.9	2.1	1 231.9	2.1	8,681	14,913	C
Turkey	70.5	1.0	614.5	1.1	8,711	12,466	C
Poland	38.1	0.6	430.7	0.7	11,302	18,050	BB
Czech Republic	10.4	0.2	190.3	0.3	18,256	24,271	BB
Romania	21.5	0.3	161.5	0.3	7,523	11,869	C
Hungary	10.0	0.1	129.5	0.2	12,914	18,506	C
Ukraine	45.7	0.7	117.4	0.2	2,569	6,330	D
Slovak Republic	5.4	0.1	88.2	0.2	16,281	21,245	AA
Croatia	4.4	0.1	67.7	0.1	15,284	17,707	B
Belarus	9.5	0.1	49.0	0.1	5,166	12,750	D
Slovenia	2.0	0.0	48.6	0.1	24,107	27,470	AA
Bulgaria	7.6	0.1	47.1	0.1	6,223	11,883	C
Azerbaijan	9.0	0.1	43.1	0.1	4,798	9,540	D
Serbia	7.4	0.1	43.0	0.1	5,821	10,577	D
Lithuania	3.3	0.0	37.1	0.1	11,117	16,529	C
Latvia	2.3	0.0	25.9	0.0	11,467	14,291	D
Cyprus	0.8	0.0	23.6	0.0	29,615	28,504	AA
Estonia	1.3	0.0	19.3	0.0	14,407	17,695	BB
Bosnia and Hercegovina	3.9	0.1	17.0	0.0	4,366	7,634	D
Albania	3.2	0.0	12.2	0.0	3,837	7,169	D
Georgia	4.4	0.1	10.7	0.0	2,450	4,754	D
Macedonia	2.1	0.0	9.4	0.0	4,547	2,839	D
Armenia	3.3	0.0	8.5	0.0	2,614	4,983	D
Malta	0.4	0.0	8.0	0.0	19,250	6,653	AA
Moldova	3.6	0.1	5.4	0.0	1,514	2,839	D
Sub-Saharan Africa	820.1	12.1	942.1	1.6	1,149	2,401	C
South Africa	49.3	0.7	287.2	0.5	5,824	10,229	BB
Nigeria	151.9	2.2	168.8	0.3	1,112	2,274	D
Angola	17.3	0.3	74.5	0.1	4,302	6,181	C
Sudan	39.1	0.6	54.6	0.1	1,397	2,377	D
Ethiopia	82.8	1.2	32.3	0.1	390	953	D
Kenya	35.9	0.5	30.1	0.1	840	1,728	D

** average rating using GDP weighting* *** EH rating as of January 28, 2011*
Source: Euler Hermes

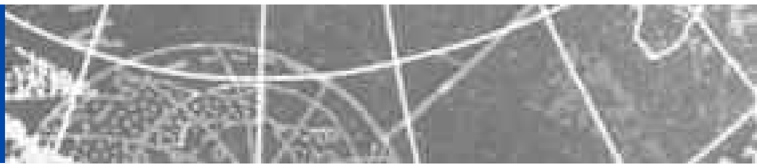
Population, GDP and risk rating

	POPULATION 2009 (*millions*)	% OF WORLD total	GDP 2009 (*$ billions*)	% OF WORLD total	GDP PER CAPITA ($) 2009	AVERAGE 2009 EXCHANGE RATE (*units per $1.00*)	EH RATING**
Côte d'Ivoire	21.4	0.3	22.5	0.0	1,052	1,672	D
Cameroon	19.9	0.3	22.2	0.0	1,114	2,144	C
Tanzania	40.5	0.6	21.3	0.0	526	1,421	C
Uganda	32.8	0.5	15.8	0.0	482	1,210	C
Ghana	23.1	0.3	15.3	0.0	663	1,558	C
Zambia	12.0	0.2	12.8	0.0	1,070	1,539	C
Senegal	12.8	0.2	12.8	0.0	998	1,770	C
Equatorial Guinea	1.3	0.0	12.2	0.0	9,576	18,573	D
Botswana	1.8	0.0	11.7	0.0	6,437	14,321	B
Congo (Democratic Republic of)	64.8	1.0	11.1	0.0	171	330	D
Gabon	1.5	0.0	11.0	0.0	7,468	14,297	C
Mozambique	21.2	0.3	9.8	0.0	465	933	C
Congo (People's Republic of)	3.8	0.1	9.6	0.0	2,557	4,136	D
Namibia	2.1	0.0	9.4	0.0	4,512	6,653	B
Mali	13.7	0.2	9.0	0.0	657	1,197	D
Mauritius	1.3	0.0	8.6	0.0	6,705	12,737	BB
Madagascar	20.8	0.3	8.6	0.0	414	3,456	D
Burkina Faso	14.4	0.2	8.1	0.0	564	1,303	C
Chad	10.0	0.1	6.9	0.0	687	1,610	D
Benin	9.4	0.1	6.7	0.0	709	1,440	C
Niger	14.2	0.2	5.3	0.0	372	712	D
Rwanda	9.8	0.1	5.2	0.0	536	1,155	D
Malawi	13.9	0.2	4.7	0.0	339	10,528	D
Zimbabwe	11.7	0.2	4.6	0.0	394	370	D
Guinea (Republic of)	10.1	0.1	4.6	0.0	451	1,042	D
Togo	6.8	0.1	3.2	0.0	464	834	D
Mauritania	3.1	0.0	3.0	0.0	976	2,035	D
Swaziland	1.0	0.0	3.0	0.0	2,924	5,743	C
Central African Republic	4.4	0.1	2.0	0.0	447	744	D
Eritrea	5.2	0.1	1.9	0.0	363	679	D
Sierra Leone	5.7	0.1	1.9	0.0	326	782	D
Lesotho	2.5	0.0	1.6	0.0	650	1,210	C
Cape Verde	0.5	0.0	1.6	0.0	3 072	3,455	D
Burundi	8.1	0.1	1.3	0.0	164	400	D
Middle East and North Africa	365.9	5.4	2,111.0	3.9	5 769	9,705	B
Saudi Arabia	25.5	0.4	376.3	0.7	14,745	23,272	BB
Iran	74.1	1.1	325.9	0.6	4,399	10,939	D
United Arab Emirates	4.9	0.1	223.9	0.4	45,614	36,843	BB
Israel	7.3	0.1	195.4	0.3	26,876	28,581	BB
Egypt	76.7	1.1	188.0	0.3	2,450	6,114	C
Algeria	35.0	0.5	139.8	0.2	3,996	6,885	C
Kuwait	3.5	0.1	98.4	0.2	27,833	37,849	BB
Qatar	1.6	0.0	98.3	0.2	59,984	78,260	BB
Morocco	31.7	0.5	91.4	0.2	2,882	4,587	B
Iraq	31.2	0.5	65.8	0.1	2,108	3,565	D
Libya	6.3	0.1	60.2	0.1	9,512	13,599	C
Syria	20.1	0.3	52.6	0.1	2 615	4 939	D
Oman	2.9	0.0	46.1	0.1	15,995	25,635	BB
Tunisia	10.4	0.2	43.5	0.1	4,171	9,154	B
Lebanon	3.9	0.1	34.5	0.1	8,952	14,268	D
Yemen	23.7	0.3	25.1	0.0	1,061	2,454	D
Oceania	35.3	0.5	1 125.2	2.0	31,843	27,924	AA
Australia	22.0	0.3	994.2	1.7	45,286	38,663	AA
New Zealand	4.3	0.1	117.8	0.2	27,261	26,670	AA
World	6,769.9	100.0	57,819.5	100.0	8,541	10,328	A

** average rating using GDP weighting* *** EH rating as of January 28, 2011*

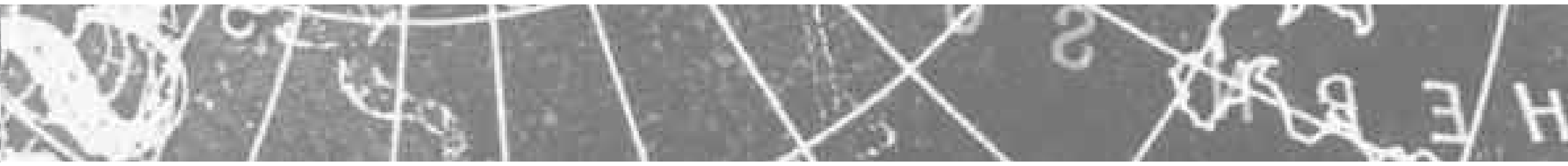
Source: Euler Hermes

Summary of economic forecasts



GDP, inflation (change over the period, in %), unemployment rate (in % of labour force) — *Forecasts*
Sources: IHS Global Insight, Euler Hermes forecasts

Country		2009	2010	2011	2012
United States	GDP	-2.6	2.9	2.8	2.5
	Inflation	-0.1	1.5	1.6	1.4
	Unemployment rate	9.3	9.6	9.5	8.7
	General government balance (% of GDP)	-10.4	-9.1	-8.9	-7.3
	Public debt (% of GDP)	87	94	99	103
	Current account (% of GDP)	-2.7	-3.2	-3.2	-3.2
Canada	GDP	-2.5	3.0	2.4	2.8
	Inflation	0.3	1.6	1.8	1.6
	Unemployment rate	8.3	8.1	7.9	7.3
	General government balance (% of GDP)	-5.1	-4.5	-3.6	-2.0
	Public debt (% of GDP)	83	85	86	83
	Current account (% of GDP)	-2.8	-3.0	-2.1	-1.9
Japan	GDP	-6.3	4.2	0.9	1.3
	Inflation	-1.5	-0.6	-0.2	0.0
	Unemployment rate	5.2	5.1	4.8	4.7
	General government balance (% of GDP)	-7.1	-8.9	-8.3	-7.9
	Public debt (% of GDP)	185	192	200	205
	Current account (% of GDP)	2.8	3.4	3.2	3.5
Euro zone	GDP	-4.0	1.7	1.3	1.5
	Inflation	0.3	1.5	1.5	1.3
	Unemployment rate	9.3	9.8	9.5	9.1
	General government balance (% of GDP)	-6.2	-6.2	-4.6	-3.6
	Public debt (% of GDP)	80	84	86	88
	Current account (% of GDP)	-0.6	-0.4	-0.4	-0.6
Germany	GDP	-4.7	3.6	2.1	1.6
	Inflation	0.3	1.1	1.4	1.3
	Unemployment rate	7.8	7.4	7.1	6.9
	General government balance (% of GDP)	-3.0	-3.8	-2.8	-2.1
	Public debt (% of GDP)	73	76	76	76
	Current account (% of GDP)	5.1	4.9	5.2	5.6
France	GDP	-2.5	1.5	1.3	1.8
	Inflation	0.1	1.4	0.9	1.2
	Unemployment rate	9.5	9.8	9.7	9.1
	General government balance (% of GDP)	-7.6	-7.2	-6.6	-6.1
	Public debt (% of GDP)	78	85	89	92
	Current account (% of GDP)	-2.0	-2.1	-2.6	-2.7
Italy	GDP	-5.1	1.0	1.0	1.1
	Inflation	0.7	1.6	1.5	1.5
	Unemployment rate	7.8	8.5	8.5	8.1
	General government balance (% of GDP)	-5.3	-5.3	-3.9	-2.7
	Public debt (% of GDP)	116	119	120	120
	Current account (% of GDP)	-3.2	-4.1	-4.7	-4.7
Spain	GDP	-3.7	-0.2	0.5	1.1
	Inflation	-0.2	1.7	1.6	1.2
	Unemployment rate	18.0	19.9	19.6	18.9
	General government balance (% of GDP)	-11.1	-9.7	-7.6	-5.0
	Public debt (% of GDP)	53	63	70	74
	Current account (% of GDP)	-5.5	-4.4	-2.8	-2.5
Netherlands	GDP	-3.9	1.7	1.3	1.6
	Inflation	1.0	1.0	1.3	1.3
	Unemployment rate	4.8	5.5	5.3	5.2
	General government balance (% of GDP)	-5.4	-6.0	-4.8	-3.6
	Public debt (% of GDP)	61	65	68	69
	Current account (% of GDP)	4.6	5.5	5.5	4.9
Belgium	GDP	-2.7	2.0	1.5	1.8
	Inflation	0.0	2.2	1.9	1.7
	Unemployment rate	7.9	8.6	8.8	8.2
	General government balance (% of GDP)	-6.0	-5.0	-4.8	-4.5
	Public debt (% of GDP)	96	99	101	102
	Current account (% of GDP)	0.8	2.8	1.9	2.4

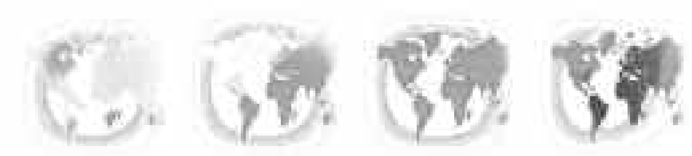


GDP, inflation (change over the period, in %), unemployment rate (in % of labour force)
Sources: IHS Global Insight, Euler Hermes forecasts

Forecasts

Country		2009	2010	2011	2012
Austria	GDP	-3.7	1.9	2.0	2.0
	Inflation	0.5	1.8	1.9	1.7
	Unemployment rate	7.2	6.8	6.6	6.3
	General government balance (% of GDP)	-3.5	-4.4	-3.7	-3.1
	Public debt (% of GDP)	67	70	71	71
	Current account (% of GDP)	2.7	2.8	3.5	4.3
Finland	GDP	-8.1	3.0	2.6	2.5
	Inflation	-0.2	1.2	1.9	1.8
	Unemployment rate	8.2	8.3	7.9	7.6
	General government balance (% of GDP)	-2.5	-3.7	-2.2	-1.7
	Public debt (% of GDP)	44	48	51	52
	Current account (% of GDP)	2.7	1.3	0.6	1.5
Greece	GDP	-2.3	-3.8	-2.2	0.9
	Inflation	1.2	4.3	2.0	0.4
	Unemployment rate	9.5	12.4	14.6	15.5
	General government balance (% of GDP)	-15.4	-8.4	-7.5	-6.7
	Public debt (% of GDP)	127	148	164	171
	Current account (% of GDP)	-10.6	-11.6	-9.4	-6.9
Ireland	GDP	-7.6	-0.4	0.9	1.6
	Inflation	-4.9	-0.8	0.6	0.9
	Unemployment rate	17.1	19.0	18.4	17.4
	General government balance (% of GDP)	-14.4	-33.0	-11.5	-9.0
	Public debt (% of GDP)	64	97	105	105
	Current account (% of GDP)	-3.0	-3.2	-2.9	-2.8
Portugal	GDP	-2.5	1.5	0.1	0.9
	Inflation	-1.0	1.4	1.6	1.2
	Unemployment rate	9.6	10.7	10.3	10.2
	General government balance (% of GDP)	-9.3	-7.7	-4.8	-3.5
	Public debt (% of GDP)	78	86	90	93
	Current account (% of GDP)	-9.4	-8.8	-3.8	2.0
United Kingdom	GDP	-4.9	1.4	1.5	1.9
	Inflation	2.2	3.1	2.3	1.7
	Unemployment rate	7.7	8.1	8.4	8.3
	General government balance (% of GDP)	-11.3	-10.1	-8.2	-6.9
	Public debt (% of GDP)	67.7	75.5	80.4	83.5
	Current account (% of GDP)	-1.7	-2.1	-1.8	-1.7
Sweden	GDP	-5.3	5.2	3.4	2.4
	Inflation	-0.3	1.2	1.9	2.0
	Unemployment rate	8.4	8.4	7.9	7.7
	General government balance (% of GDP)	-0.9	-0.9	-0.3	0.4
	Public debt (% of GDP)	42	41	40	38
	Current account (% of GDP)	7.1	6.9	6.7	6.4
Denmark	GDP	-5.2	2.1	1.7	1.7
	Inflation	1.3	2.3	2.0	1.5
	Unemployment rate	6.0	7.3	7.2	6.7
	General government balance (% of GDP)	-2.7	-5.0	-4.3	-3.8
	Public debt (% of GDP)	41	45	48	50
	Current account (% of GDP)	3.5	4.8	3.8	3.5
Norway	GDP	-1.3	-0.2	1.6	2.1
	Inflation	2.0	2.2	1.5	1.8
	Unemployment rate	3.2	3.6	3.5	3.3
	General government balance (% of GDP)	9.9	9.6	9.3	9.8
	Public debt (% of GDP)	44	44	44	43
	Current account (% of GDP)	13.1	11.8	10.8	11.3
Switzerland	GDP	-1.9	2.7	1.9	2.1
	Inflation	-0.5	0.6	0.7	1.0
	Unemployment rate	3.7	3.9	3.7	3.5
	General government balance (% of GDP)	0.4	-0.5	-0.3	0.5
	Public debt (% of GDP)	39	39	38	36
	Current account (% of GDP)	11.9	12.0	10.5	9.9

World trade



Export destination markets in %

Cumulative 12 months to the end of December, 2009

Sources: IHS Global Insight, IMF

Using this table: Canada (row 1) sends 75% of its exports to the USA (column 2)

	AMERICA					ASIA				EUROPE																					
	Canada	**United States**	**Mexico**	**Argentina**	**Brazil**	**Japan**	**China**	**India**	**South Korea**	**Germany**	**France**	**Italy**	**Spain**	**Netherlands**	**Belgium**	**Greece**	**Austria**	**Finland**	**Ireland**	**Luxembourg**	**Portugal**	**UK**	**Sweden**	**Norway**	**Denmark**	**Switzerland**	**Russia**	**Euro zone**	**Europe-27**	**Rest of world**	**Total exports** *(USD billions)*
Canada	0.0	75.0	1.3	0.0	0.5	2.3	3.1	0.6	1.0	1.0	0.7	0.5	0.3	0.8	0.5	0.0	0.1	0.1	0.2	0.0	0.1	3.4	0.1	0.5	0.2	0.3	0.2	4.4	8.3	4.6	315.7
USA	19.4	0.0	12.2	0.5	2.5	4.8	6.6	1.6	2.7	4.1	2.6	1.2	0.8	3.1	2.0	0.2	0.2	0.2	0.7	0.1	0.1	4.3	0.4	0.3	0.2	1.7	0.5	15.3	20.9	16.5	1,057.1
Mexico	6.5	72.3	0.0	0.5	1.2	1.1	1.1	0.6	0.2	1.6	0.3	0.3	1.0	0.7	0.5	0.0	0.0	0.0	0.1	0.0	0.0	0.6	0.0	0.0	0.0	0.2	0.1	4.7	5.6	9.5	224.4
Argentina	1.0	6.4	2.0	0.0	18.8	1.0	9.3	1.2	0.8	2.3	0.9	2.4	2.9	3.8	0.6	0.3	0.2	0.0	0.2	0.0	0.3	1.4	0.1	0.1	0.8	1.0	1.6	14.2	17.6	36.9	58.9
Brazil	1.1	10.5	1.8	8.4	0.0	2.9	12.5	2.2	1.7	4.1	1.9	2.1	1.8	5.4	2.0	0.1	0.1	0.2	0.2	0.0	0.8	2.4	0.2	0.4	0.2	1.5	1.8	18.9	22.4	28.5	150.6
Japan	1.3	16.4	1.2	0.1	0.7	0.0	18.9	1.1	8.1	2.9	1.1	0.8	0.4	2.3	0.9	0.1	0.1	0.1	0.1	0.0	0.1	2.0	0.2	0.2	0.1	1.1	0.6	9.1	12.4	19.1	581.6
China	2.2	20.0	0.9	0.3	1.1	8.3	0.0	2.1	4.6	4.3	1.7	1.7	1.1	3.4	0.9	0.3	0.2	0.3	0.2	0.3	0.1	2.8	0.4	0.3	0.4	0.2	1.7	14.5	20.0	18.1	1,257.3
India	1.1	12.6	0.3	0.2	1.4	2.1	5.6	0.0	2.0	3.6	1.9	2.3	1.3	2.2	2.1	0.3	0.2	0.1	0.2	0.0	0.2	3.7	0.3	0.2	0.4	0.3	0.7	14.6	20.2	27.0	159.1
South Korea	1.5	10.8	2.3	0.1	1.4	5.8	23.2	2.3	0.0	2.4	0.8	0.8	0.6	0.8	0.6	0.9	0.2	0.1	0.1	0.0	0.1	1.0	0.3	0.4	0.1	0.1	1.4	7.6	11.9	25.0	341.9
Germany	0.6	6.7	0.6	0.2	0.9	1.3	4.5	1.0	1.0	0.0	10.1	6.3	3.9	6.6	5.2	0.8	5.9	0.9	0.5	0.6	0.8	6.6	2.0	0.8	1.6	4.4	2.5	41.9	62.6	11.1	1,122.2
France	0.7	5.7	0.4	0.2	0.7	1.4	2.3	0.7	0.8	15.9	0.0	8.2	7.8	4.0	7.4	0.9	0.9	0.5	0.6	0.5	1.3	7.0	1.2	0.4	0.6	2.9	1.4	48.2	61.6	16.6	484.2
Italy	0.7	5.9	0.6	0.2	0.9	1.3	2.3	1.0	0.7	12.6	11.6	0.0	5.7	2.4	2.8	2.1	2.3	0.4	0.3	0.1	1.3	5.1	0.9	0.4	0.6	4.7	2.2	42.6	57.0	19.0	404.8
Spain	0.5	3.7	1.5	0.4	0.9	0.8	1.3	0.5	0.4	11.1	19.3	8.2	0.0	3.0	2.8	1.1	0.9	0.3	0.4	0.1	9.2	6.2	0.8	0.5	0.6	1.7	0.9	56.6	68.4	15.9	217.5
Netherlands	0.4	4.0	0.4	0.1	0.3	0.7	1.3	0.5	0.5	25.5	9.3	5.1	3.5	0.0	12.5	0.8	1.3	0.9	0.8	0.3	0.8	8.2	1.7	1.0	1.2	1.6	1.3	60.9	77.0	8.9	499.0
Belgium	0.7	5.4	0.3	0.1	0.6	0.8	1.6	1.7	0.4	19.6	17.7	4.8	3.3	11.8	0.0	0.7	1.0	0.6	0.5	1.7	0.6	7.2	1.3	0.5	0.8	1.2	0.8	62.6	75.9	7.5	370.0
Greece	0.5	4.9	0.2	0.0	0.2	0.2	0.6	0.4	0.2	11.1	3.7	11.0	2.5	2.6	1.5	0.0	1.0	0.4	0.3	0.0	0.7	4.4	0.8	0.2	0.7	2.0	1.6	35.6	62.5	31.9	20.1
Austria	0.6	4.0	0.3	0.1	0.7	0.8	2.0	0.6	0.6	31.0	3.9	8.2	1.8	1.8	1.5	0.6	0.0	0.4	0.2	0.1	0.4	3.2	1.0	0.5	0.5	5.0	2.4	52.2	71.8	12.1	137.7
Finland	1.0	7.8	0.2	0.1	1.3	1.6	4.1	1.0	1.2	10.3	3.7	3.0	2.3	5.9	2.7	0.5	0.7	0.0	0.4	0.0	0.7	5.2	9.8	3.0	1.9	1.2	9.0	30.3	55.5	17.8	62.8
Ireland	0.5	20.5	0.6	0.0	0.3	2.1	2.0	0.2	0.4	5.7	5.6	3.4	4.2	3.5	17.8	0.4	0.4	0.3	0.0	0.2	0.5	16.3	0.8	0.6	0.5	3.0	0.3	41.9	61.5	3.9	114.2
Luxembourg	0.4	2.1	0.3	0.0	0.1	0.2	0.9	0.2	0.2	19.8	15.9	7.5	3.5	4.3	11.1	0.8	1.4	0.6	0.3	0.0	0.7	8.0	2.7	0.5	1.2	2.2	0.8	66.0	82.5	8.1	20.8
Portugal	0.4	3.3	0.7	0.1	1.0	0.3	0.7	0.1	0.1	13.0	12.0	3.7	26.2	3.6	2.4	0.3	0.6	0.4	0.4	0.2	0.0	5.5	1.2	0.3	0.7	0.9	0.3	62.9	73.1	17.7	43.4
UK	1.7	14.7	0.3	0.1	0.8	1.5	2.3	1.3	0.9	11.1	8.0	3.7	4.0	7.8	4.7	0.7	0.6	0.6	6.9	0.1	0.7	0.0	1.8	1.2	1.1	1.9	1.0	48.7	55.0	10.1	352.8
Sweden	0.9	6.4	0.5	0.2	0.7	1.2	3.1	1.3	0.7	10.2	5.1	3.1	2.4	4.7	3.7	0.5	0.9	6.4	0.5	0.1	0.6	7.4	0.0	10.6	7.3	1.0	1.4	38.1	58.3	10.2	131.3
Norway	2.1	4.8	0.1	0.0	0.4	1.0	2.0	0.4	1.9	13.4	8.5	3.0	2.2	10.9	2.6	0.2	0.2	1.2	1.0	0.0	0.8	24.3	5.8	0.0	3.4	0.5	0.8	44.0	80.4	3.9	120.7
Denmark	1.0	6.0	0.3	0.1	0.4	2.0	2.3	0.4	0.6	17.5	4.6	3.2	2.8	4.8	1.7	0.7	0.8	2.4	1.2	0.1	0.5	8.5	12.7	6.0	0.0	0.9	1.6	40.4	67.3	8.5	93.4
Switzerland	1.8	9.1	0.6	0.2	1.2	3.5	2.9	1.1	0.8	21.0	8.6	8.1	2.3	1.5	2.1	0.6	5.4	0.3	0.3	0.1	0.3	3.7	0.6	0.4	0.5	0.0	1.1	50.6	57.7	10.5	164.0
Russia	0.5	3.2	0.2	0.0	0.4	2.6	5.7	1.7	1.7	6.2	2.5	6.5	1.3	10.6	1.5	0.5	0.3	3.0	0.0	0.0	0.1	2.3	1.1	0.3	0.5	2.0	0.0	32.6	47.8	39.3	281.6
Euro zone	0.6	6.0	0.6	0.2	0.7	1.1	2.7	0.9	0.7	12.1	9.6	5.6	4.4	4.8	5.7	0.9	2.7	0.6	0.5	0.5	1.4	6.8	1.6	0.7	1.1	3.2	1.9	49.2	66.1	16.1	3,522.8
EU-27	0.7	6.2	0.5	0.1	0.7	1.1	2.5	0.8	0.7	13.3	8.9	5.4	4.1	4.9	5.1	0.9	2.5	0.9	1.0	0.4	1.2	6.2	1.8	1.1	1.2	2.7	2.0	49.0	66.4	12.4	4,582.5
Rest of world	1.7	21.6	2.0	0.4	1.2	9.0	17.5	4.3	5.2	4.8	2.3	2.8	1.8	2.5	1.8	0.2	0.6	0.1	0.2	0.0	0.3	2.2	0.6	0.1	0.4	1.1	1.0	17.6	22.4	62.9	3,355.9
Total imports *(USD billions)*	**353**	**1,604**	**250**	**45**	**139**	**552**	**1,021**	**253**	**351**	**931**	**560**	**410**	**288**	**446**	**352**	**60**	**143**	**60**	**62**	**24**	**70**	**482**	**120**	**69**	**83**	**201**	**166**	**3,434**	**4,632**	**3,531**	**12,366.5**

International
insolvency update

Number of business insolvencies

Sources: National figures, Euler Hermes forecasts

Forecasts

Please refer to Euler Hermes Economic Outlook no. 8 | 2010 for fuller details and comments on insolvencies

	Number				Change			
	2008	2009	2010	2011	2008	2009	2010	2011
USA	43,546	60,837	56,520	53,020	54%	40%	-7%	-6%
Brazil	2,555	3,041	2,500	2,650	-15%	19%	-18%	6%
Canada	6,164	5,420	4,150	4,100	-2%	-12%	-23%	-1%
Japan	15,646	15,480	13,600	13,200	11%	-1%	-12%	-3%
China	4,555	4,448	3,650	3,470	5%	-2%	-18%	-5%
Australia	9,113	9,437	9,280	9,700	21%	4%	-2%	5%
South Korea	2,735	1,998	1,460	1,500	19%	-27%	-27%	3%
Taiwan	805	341	270	230	-23%	-58%	-21%	-15%
Hong Kong	468	573	460	440	3%	22%	-20%	-4%
Singapore	132	135	140	145	25%	2%	4%	4%
France	57,633	64,533	62,200	59,300	15%	12%	-4%	-5%
Germany	29,291	32,687	32,500	31,000	0%	12%	-1%	-5%
Switzerland	4,221	5,215	6,200	6,000	-2%	24%	19%	-3%
Austria	6,315	6,902	6,350	5,910	0%	9%	-8%	-7%
Italy	7,272	9,400	11,400	11,400	19%	29%	21%	0%
Spain	2,894	5,096	5,150	4,800	180%	76%	1%	-7%
Greece	563	650	810	970	10%	15%	25%	20%
Portugal	2,950	3,815	4,000	4,000	47%	29%	5%	0%
UK	29,994	35,185	29,560	25,710	31%	17%	-16%	-13%
Russia	13,916	15,473	16,700	18,200	-28%	11%	8%	9%
Netherlands	4,635	8,040	7,350	7,000	1%	73%	-9%	-5%
Poland	430	673	720	720	-10%	57%	7%	0%
Belgium	8,472	9,421	9,890	9,500	10%	11%	5%	-4%
Sweden	6,298	7,638	7,110	6,760	9%	21%	-7%	-5%
Norway	3,637	5,013	4,640	4,190	28%	38%	-7%	-10%
Denmark	3,709	5,710	6,400	6,100	54%	54%	12%	-5%
Finland	2,916	3,803	3,510	3,160	14%	30%	-8%	-10%
Ireland	773	1,406	1,530	1,530	113%	82%	9%	0%
Czech Republic	1,110	1,510	1,600	1,660	-3%	36%	6%	4%
Hungary	11,804	14,636	17,700	13,500	21%	24%	21%	-24%
Slovak Republic	582	784	800	700	-27%	35%	2%	-13%
Luxembourg	583	698	860	740	-6%	20%	23%	-14%
Lithuania	957	1,844	1,600	1,500	58%	93%	-13%	-6%
Latvia	1,289	2,149	1,970	1,850	28%	67%	-8%	-6%
Estonia	423	1,055	930	860	109%	149%	-12%	-8%

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