Atradius

Managing risk, enabling trade

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Economic Outlook

No room for policy mistakes

Editorial

The bright sky envisioned in May has proven true in 2018, with even a mild GDP growth acceleration to 3.1% from 3.0% in 2017. It is a synchronised growth pattern across the regions as well. The eurozone continues on a robust growth track as the US accelerates on the back of fiscal stimulus. Emerging economies are continuing steadily with a few notable exceptions. Next year global GDP growth is expected to moderate. This is not really a surprise: the business cycle peaks, US fiscal stimulus fades, the Fed continues monetary tightening and China's economic growth continues to slow. It is increasingly appropriate that we included the 'for now' qualification to our 'bright sky' outlook. Clouds are quickly gathering on the horizon, emanating primarily from policy mistakes.

First and foremost, the US administration has not only barked, but has also started to bite in trade matters. In May we interpreted US trade policy measures as a first sign of a looming, but not per se imminent, trade war. Since then, tariffs announced have been implemented and China has retaliated. Most importantly, the US has announced tariffs on USD 200 billion of Chinese imports. It triggered the expected Chinese tit-for-tat response. The remaining USD 267 billion of imports from China is now being considered for tariff levies as well. A trade war between the US and China is now unfolding, with the underlying issue being global economic supremacy. The unfolding trade war will prove a net negative for all parties involved, and beyond.

Moreover, the US administration has decided to withdraw from the multilateral deal designed to contain Iranian nuclear ambitions. While such withdrawal is a strong signal of US unilateralism that threatens the global order, raising geopolitical uncertainty, its economic impact is in restoration and reinforcement of US economic sanctions on Iran. Iran oil exports may be hit to the tune of 1.3 million barrels per day. This figure comes in addition to a supply implosion in Venezuela, a country in disarray, and a disruption in Libyan production. As OPEC plus Russia is not willing, and the US not able, to ramp up supply sufficiently, we have observed a further climb in the oil price. It has already hit USD 85 per barrel Brent in early October, almost twice the level recorded in mid-2017. Such level, and the uncertainty it creates for further rises, is a setback for the global economy, especially for oil-importing emerging economies.

Furthermore, a number of emerging economies have walked into dire straits, reflected by sharp currency depreciations. Argentina was the first country to lose confidence over the summer leading to a record USD 57 billion IMF programme. Turkey followed after its economy overheated from a poorly targeted fiscal stimulus. Central bank interest rate hikes have so far helped to avoid a turn to the IMF, but the situation remains fragile. These crises have had limited contagion to other countries, but they stand as warnings to other emerging markets. Poor domestic policymaking can quickly spell disaster as the global economic situation becomes more challenging.

Europe is also increasingly vulnerable to policy mistakes. Italy, the eurozone's third largest country, has defied rules by coming up with a fiscal deficit four times as large as agreed. The underlying spending spree of the populist government is supported by a majority of the Italian electorate. With the Italian government debt at more than twice the level allowed and banks loaded with it, the prospect of a Greek-style crisis period in the eurozone is not unrealistic. On top of this, the threat of a no-deal Brexit has mounted as time is running out.

Over the summer, a number of policy-driven clouds have gathered that threaten the global economy. Uncertainty has gone up markedly. While the global outlook is still reasonably positive, there is no room for further policy mistakes.

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Executive summary

Following a robust expansion in 2017, global economic momentum has been more or less maintained in 2018 but is set to increasingly lose steam through 2019. Risks to the outlook continue to mount, especially stemming from the unfolding US-China trade war. In a more challenging global environment, it is increasingly clear that the room for policy mistakes is limited. Poor policymaking has already translated to crises in several emerging economies and potential for policy missteps such as trade policy in the US and populist policies in Italy could have global ramifications.

Key points

- Global GDP growth is forecast to slightly accelerate to 3.1% in 2018 from 3.0% in 2017. In 2019, the world economy is forecast to expand 2.8%.
- The US economy, with strong fundamentals further fuelled by fiscal stimulus, is expected to expand 2.9% this year before easing to 2.5% growth next year. The eurozone economy continues to cool off as growth decelerates from 2.0% in 2018 to 1.7% in 2019. The UK's economy is slowing to 1.3% this year but is expected to remain resilient with 1.5% in 2019, should Brexit proceed in an orderly manner.
- GDP growth across emerging market economies (EMEs) is holding up in 2018 and 2019 at 4.5% and 4.4% respectively. Emerging Asia will remain the growth leader but is losing pace to 5.6% growth in 2019 from 6.0% this year. Eastern Europe and MENA are also losing momentum while Sub-Saharan Africa and Latin America are forecast to see moderate accelerations in 2019.
- As global growth keeps pace this year, another 4% decline in insolvencies in advanced economies is forecast. We forecast only a 1% decline in 2019 as growth momentum eases.

The global macroeconomic environment is presented in *Chapter 1* of the Economic Outlook. The positive global growth outlook is increasingly clouded by downside risks, especially the unfolding trade war between the US and China. Rising uncertainty could strain global investment, a major determinant of global trade. As such, global trade to ease from a remarkable 4.6% expansion in 2017. We forecast 3.7% growth in 2018 and further slowing to 3.0% in 2019.

Our global outlook is cautious though as downside risks continue to mount. The most prominent risk is that of a global proliferation of the US-China trade war. The second highest risk remains misguided Fed policy which would put a brake on US economic activity and cause financial turbulence largely at the expense of EMEs. The remaining risks are (3) a financial market correction, (4) the rapid continuation of the upward trend in the oil price, (5) a hard landing of the Chinese economy, and (6) geopolitical risk.

Prospects and risks for advanced economies are assessed in *Chapter 2*. Another slight upward revision to the US outlook confirms the strength of the domestic economy and effectiveness of fiscal stimulus. However the economy is expected to cool in 2019 and policy missteps, whether monetary or in trade policy, could cause that deceleration to come on much more rapidly. Policy uncertainty in the eurozone is also increasingly clouding its steady outlook, stemming from the new populist government in Italy and Brexit negotiations with the UK. The UK's outlook is sluggish but resilient but could be thrown off track if a deal is not reached before its departure from the EU. Advanced Asia is losing momentum as growth in China and global trade eases.

Chapter 3 outlines the outlook for emerging markets. In general, prospects for EMEs remain bright over the forecast period, but idiosyncratic weaknesses and ongoing vulnerability to external developments continue to cloud individual countries' outlooks. Capital outflows and currency depreciations experienced this year are highlighted as evidence of this. As global trade conditions deteriorate, these markets are more dependent on strong domestic economies and stable policymaking. In line with the heterogeneity of countries, the consequences of the unfolding trade war and domestic policy differ greatly.

The momentary bright sky that has characterised the global economy translates to a relatively benign insolvency environment, explored in *Chapter 4*. Business risks continue to grow though as trade and monetary policy move in a less accommodative direction for firms. As such global insolvencies are forecast to stabilise in 2019.

1. The global macroeconomic environment

Global GDP growth acceleration dies out and reverses

Global GDP growth is forecast to pick up to 3.1% in 2018 before moderating slightly to 2.8% in 2019. This is in line with our outlook presented in May but marks a more rapid slowdown next year than previously expected.

Table 1.1 Real GDP growth (%) - global regions

	2017	2018 f	2019 f
Eurozone	2.5	2.0	1.7
United States	2.2	2.9	2.5
Emerging Asia	6.0	6.0	5.6
Latin America	1.2	0.9	1.8
Eastern Europe	3.1	3.0	2.4
World	3.0	3.1	2.8

Sources: Oxford Economics, Atradius

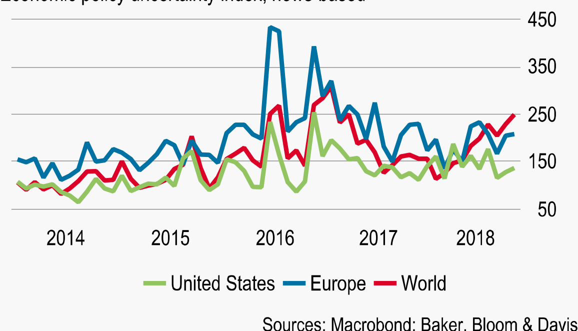
While the underlying picture is still positive, there are clearly clouds gathering. The unfolding trade war between the United States and China creates uncertainty, especially for firms. It negatively impacts the nascent recovery of investments, which is in turn putting pressure on trade growth. Thus far, trade is holding up well against protectionist tendencies. Moreover, while the global economy is still supported by favourable financing conditions, the tightening of monetary policy by the US Federal Reserve is starting to be felt. This is particularly true for a number of emerging market economies (EMEs) affected by currency depreciation. These depreciations are also driven by country-specific policy issues such as in Turkey and Argentina. Political uncertainty, meanwhile, has continued to grow as well, especially in Europe. It not only relates to Brexit. The plans of the populist new Italian government may not only derail the modest local recovery, but could threaten financial stability in the eurozone as well. These issues ascertain that our more cautious forecasts will remain surrounded by a high level of uncertainty, similar to what we have already signalled in our May economic outlook.

The data for 2018, so far, confirm that global GDP growth is mildly strengthening, with stark regional differences. For the global GDP growth leader, Emerging Asia, GDP growth is stable at a high level (6%), with Indian GDP growth acceleration compensating for the Chinese slowdown. In Eastern Europe, a modest Russian growth spurt on the back of higher oil prices helps offset the slide in Turkey, keeping growth figures for the region broadly unchanged as well. It is particularly in the eurozone, the US and Latin America where we see considerable changes compared to 2017. In the US the impact of fiscal stimulus is pushing GDP growth to 2.9%. That is a notably divergent picture from eurozone growth, which is slowing to a still respectable 2%. The external trade environment in particular is proving less benign in 2018. Moreover, household consumption growth is depressed as wage growth is insufficient to keep up with relatively mild inflation. In Latin America the somewhat unexpected crisis in Argentina is taking its toll, whereas the Brazilian recovery is more muted than previously envisaged. Political uncertainty in Brazil in the runup to October's presidential elections and the impact of a truck driver's

strike in May have eaten into GDP. Despite this divergent growth picture in the various regions of the emerging economies, its overall level is fairly stable, at around 4.5%.

1.1 Policy uncertainty trending upwards

Economic policy uncertainty index, news-based



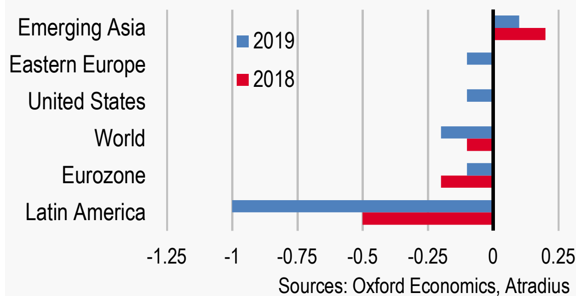
With uncertainty abound, especially related to trade and developments in some EMEs, the economic policy uncertainty (EPU) index is up. The global indicator in particular has gone up notably since the early months of the year. The US EPU index has remained reasonably calm relative to 2017 showing that trade policy uncertainty has a limited impact on the US with its rather closed economy. In the eurozone the fall of the EPU index during the spring has now been reversed. This is arguably in line with a baseline scenario of Italian policies staying in line with eurozone commitments and an orderly Brexit, issues which are both surrounded by a high amount of uncertainty. In any case, the mood in Europe related to economic policies has only marginally improved and we expect continued pressure on this index.

This picture of slightly lower growth as well as higher uncertainty is reflected in downward forecast revisions for 2018 and 2019. With the exception of Emerging Asia for both years and the United States for 2018, forecasts for all other regions have been revised down compared to our May outlook. Most revisions are modest, except that for Latin America due to the loss of confidence in Argentina and political uncertainty in Brazil.

In 2019, trade growth will continue to be hampered by the unfolding trade war. As monetary tightening in the US continues and takes off in the eurozone, financing conditions will be less benign, especially for the emerging economies. Countries that still do not have their policies right will be particularly vulnerable. Global economic policy uncertainty will impose itself as well, having a direct negative affect on investments. Finally, the global economy is running against capacity constraints, as unemployment is low and usage of production capacity in manufactoring is high, particularly in the US and the eurozone[1].

1.2 GDP growth revisions mostly negative

Change in GDP growth forecasts from May 2018 to November 2018



These issues affect all regions, but to different extents. The forecast deceleration in 2019 is therefore an across-the-board phenomenon, again with the exception of Latin America. GDP growth in the United States and the eurozone is expected to fall, to 2.5% (-0.4 percentage points compared to 2018) and 1.7% (-0.3 pp) respectively. The eurozone faces tightening monetary conditions, compounded by the less benign trade environment. The US faces the fading of the impact of the fiscal stimulus boost and less favourable financing conditions. Further tightening as well as the impact of the trade war will hit Emerging Asian growth which will hover around 5.6% (-0.4 pp). In Eastern Europe, Turkish growth will decline further as Russia grapples with sanctions. The exception to the picture of slowing growth is Latin America, where an acceleration to a still meagre 1.9% is forecast. This outlook is evidently surrounded by a very high amount of uncertainty particularly in Brazil and Argentina.

Trade growth under pressure

Six months ago we had reasons to cheer about trade growth. In 2017 it showed a very strong rebound to 4.6%, from an extraordinarily low 1.4% in 2016. This jump strongly suggested a catch-up element. That was the reason we were a little more cautious for 2018 by forecasting 3.7% trade growth for the full year. That forecast, it should be emphasised, was based on the presumption that the United States administration's bend towards a more protectionist trade policy would not really bite.

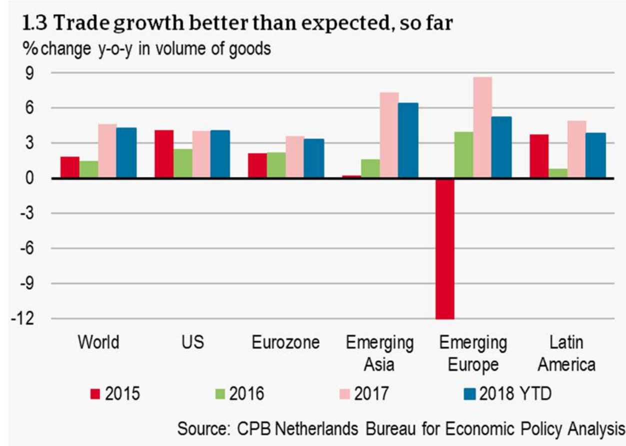
Thus far, global trade growth has decelerated slightly to 4.2%. This still positive figure resounds across all regions, with especially the United States, eurozone and Latin America holding up to, or even surpassing, their 2017 growth rates. Emerging Asian and Eastern European trade growth was slightly weaker, but still robust. The fact that these are 12-month rolling figures and as such

[1] This reflects the disappearance of the so-called output gap, which essentially measures the difference between the available stock of labor and capital and its usage. Therefore, if unemployment is low and manufacturing capacity usage is at say 90%, the output gap is low.

include the weak 2016 H2 figures still in the year-on-year calculation, gives us good reason to still expect a marked slowdown in headline figures.

1.3 Trade growth better than expected, so far

% change y-o-y in volume of goods

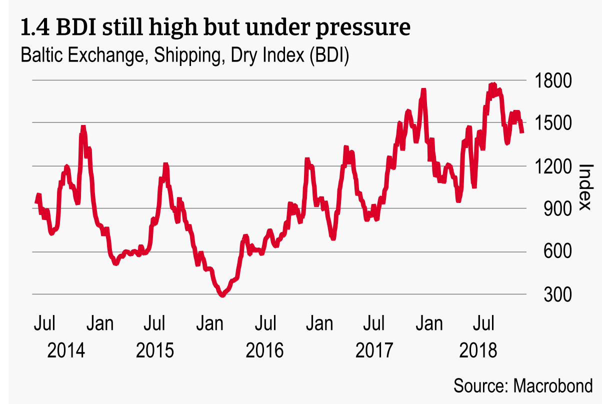


Source: CPB Netherlands Bureau for Economic Policy Analysis

In 2019, we predict trade growth will decelerate further to 3%. As a clear signal of that, the trade growth momentum has weakened considerably during the early months of the summer[2]. This signal is corroborated by the forecast of global investment growth (as a percentage of GDP), which is set to lose 25% of its pace this year and another 25% in 2019. Investment growth in the US in particular is bound to shrink as the impact of the tax benefits fade. The decline in investment growth in China meanwhile continues as well[3]. As we have highlighted in previous outlooks, the growth of investment is a key component for economic activity and is highly trade-intensive. Therefore, the lower investment growth signals lower trade growth as well. Furthermore, the Baltic Dry Index, a metric that has helped explain trade growth reversals in the past, is under pressure (although still at a reasonably high level). Finally, export orders have been decelerating since February and have contracted in September for the first time in over two years.

1.4 BDI still high but under pressure

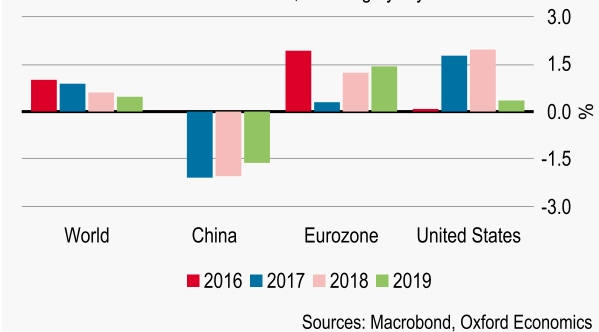
Baltic Exchange, Shipping, Dry Index (BDI)



Source: Macrobond

1.5 Investment growth slows

Fixed investment as a share of GDP, % change y-o-y



Sources: Macrobond, Oxford Economics

An unfolding trade war

Our global trade outlook is certainly under pressure, particularly by the unfolding trade war between the US and China. The first salvos of the United States in the trade area were already audible in January when a 30% tariff on all solar panels worth approximately USD 7 billion were imposed, as well as up to 50% on washing machines worth USD 2 billion. These measures were not explicitly targeted at China, however, as a large solar panel producer, it was hit. Subsequently, more serious shots were fired in March when the US administration announced tariffs of 25% on steel (imports USD 29 bn) and 10% on aluminum imports (USD 18.7 bn). It was also an across-the-board measure, hitting Chinese imports as well as those from other countries, such as Canada, Mexico and the EU[4]. There were initial exemptions, but they expired in June. Retaliation followed: Canada targeted USD 12.8 bn worth of imports from the US including steel and aluminium; Mexico targeted steel, pork, fruit and whiskey for value USD 3 bn and the EU imposed 20% tariffs on USD 3.2 bn worth of US imports, including steel, orange juice, whiskey and motorcycles. The EU also introduced 'safeguard measures' to counter steel trade diverted from the US[5]. China, not being granted exemptions, had already responded in March with a 25% tariff on a USD 3.2 bn range of US products, including pork.

These skirmishes hinted at a potential global trade war wherein the United States would target China as easily as regional partners Canada and Mexico, as well as the EU. For now, this is not the case. With Canada and Mexico the negotiations for a new NAFTA agreement have been finalised in late September. It was dubbed the USMCA. A late July meeting between the US president and the president of the European Commission has resulted in a somewhat unexpected truce on trade matters by agreeing

[2] Trade growth momentum is measured by taking the three months (moving) average of goods trade volumes and comparing this figure to the same figure of the previous three months to calculate the percentage growth. In June we therefore have the April-June 2018 figure compared to the January-March one.

[3] We stress investment growth as a percentage of GDP is declining in China. Growth y-o-y remains at a healthy 4% level (compared to 2018).

[4] Argentina, Australia, Brazil and South Korea were permanently exempted but these countries are subject to 'voluntary' export quotas.

[5] These imply a 25% tariffs if steel imports surpass the average of the last three years. See http://trade.ec.europa.eu/doclib/press/index.cfm?id=1892&title=Commission-imposes-provisional-safeguard-measures-on-imports-of-steel-products.

on the creation of a zero tariff environment between the US and the EU[6]. Gradually the real target of the US trade policy has become clear: China.

There is broad support from both within and outside the US for a more assertive approach in trade matters with China[7]. There are (at least) three reasons why. First and foremost, as we have argued in our previous Economic Outlook, the Chinese practice of imposing technology sharing for foreign firms investing in China is a thorny issue. This is part of a wider claim of unfair Chinese trade practices for which a WTO complaint has already been lodged. Second, and closely related to the first point, is the intertwining of the Chinese state and Chinese (state-owned) corporations, which is felt to distort fair competition in the global market. Thirdly, there is the strategic ambition of China as reflected in the 'Made in China 2025' initiative to considerably upgrade the Chinese manufacturing base. It promotes 10 strategic sectors including robotics, new-energy vehicles, biotechnology, aerospace and advanced rail equipment. The US considers this an existential threat to their technological leadership[8]. These elements then create a strong case for the US to act, and for the EU and other countries to support such action, although the *type of action* currently undertaken by the US administration against China is arguably not supported. China, on the other hand, sees its economic model and strategic ambition at the heart of its past, present and future economic development. For China therefore, there is a lot at stake as well and it is unlikely to budge.

Table 1.2 US-China trade war unfolding

	Imports (USD bn)	Tariff	Target
January			
US	7	35%*	Solar panels
US	2	50%*	Washing machines
March			
US	29	25%	Steel
US	18.7	10%	Aluminium
China	2.6	25%	Various, incl. pork
June			
US	50	25%	Various, incl. cars
China	50	25%	Various, incl. cars
September			
US	200	10%	Various
China	60	25%	Various, incl. LNG

* on all imports; Sources: Oxford Economics, Atradius

With this in mind, one should assess the following steps taken and still to be taken, in a rapidly unfolding tit-for-tat trade war between the US and China. Key developments are presented in Table 1.2. The US announced 25% tariffs on USD 50 bn of Chinese imports effective on July 6. The list of products targeted include motor cars, airplane and helicopter parts. China responded by imposing 25% tariffs on imports from the US, including soya beans and motor cars, for a value of USD 50 bn as well. The US responded by levying a 10% tariff on USD 200 bn of imports from China as from September 24. China in turn hit back with 10% rates on USD 60 bn of US imports, including LNG. The lower Chinese amount targeted is not exactly reflecting generosity, but rather the country running out of firepower as their imports from the US are simply lower. This 10% levy is likely to be raised to 25% beginning January 1, 2019. China should be a little creative in achieving the same amount in response[9]. These moves already mark the transition from trade skirmishes to war and the escalation is not done yet. The US has already announced further tariffs on Chinese imports valued at USD 267 bn now that China has not lived up to the US demand not to retaliate on the most recent round.

The losses exceed the gains

Given that the US protectionist bend is really starting to bite, we must consider its impact on the global economy. It may be felt through a number of channels, whereby we focus on the US (and note that for China in principle a similar analysis holds). Firstly, and perhaps most obviously, tariffs push up prices and thus inflation in the US. Firms may directly pass on higher import prices to consumers. Moreover, if foreign firms leave the market, competition between firms may become less intense, which may allow local US firms to more easily push up prices. The existence of global value chains will intensify this effect (see Box: Tariffs and global value chains). Secondly, if inflation indeed goes up (and the effect lasts), the Fed will be pushed to hike interest rates faster. This in turn will trigger a dollar appreciation. As such that dampens the effect of the tariff. Still, it hurts US exports and pushes up imports, widening the US trade deficit. That could trigger a new round of tariffs by the US administration, creating a vicious circle, with dollar appreciation. The latter implies depreciation of other currencies against the dollar and is in the interest of the exporters, such as China. Then, what starts as a trade war, may end up as a currency war. Thirdly, uncertainty in general and specifically related to the trade environment worsens the investment climate, lowers investment and potential growth. The latter is precisely what we do not need at this stage as we are already approaching capacity

[6] Before the meeting, the US president had shown an interest in imposing 25% tariffs on European cars, for example. See https://www.independent.co.uk/news/world/europe/trump-juncker-eu-deal-trade-war-tariffs-stock-dow-jones-subsidies-a8463946.html
[7] This support is implicit as well. In this context, we should be aware that US Congress holds ultimate authority over trade matters. It has handed the President a (in principle revocable) mandate in trade matters. See e.g. https://www2.gwu.edu/~iiep/signatureinitiatives/governance/US_Trade_Policy/briefs/2Congress.pdf. This suggests one may have to be less concerned about Presidential tweets like 'trade deficits are bad' and 'trade wars are easy to win'. Trade policy rather than trade tweets matter.
[8] See for example the Council for Foreign Relationships. https://www.cfr.org/blog/why-does-everyone-hate-made-china-2025.
[9] For example by imposing export restrictions for commodities that US corporates rely on. See The Economist September 22nd, 2018.

constraints. Fourthly, tariffs may push up uncertainty in combination with inflation expectations. That is a dangerous situation: prices go up and raise the prospect of further price rises. That as such may induce more demand, firms and households want to benefit before prices go up. However, the negative impact of uncertainty on demand may be a lot stronger, creating a situation of low activity and higher prices. In such case the central bank may be at a loss regarding its policy drivers: inflation triggers a rate hike, whereas lack of demand pulls the rate lower. The trade war will therefore push up prices and restrain demand, in the US as well as China. This as such has a deflationary impact on the global economy, directly and indirectly from the US and China on other countries. That lowers inflation in the rest of the world, which would be exacerbated should China start dumping on international markets.

Thus in a trade war, you may win some, but you lose much more. We use the Oxford Economics model to quantify the impact. For the global economy, a US-Chinese trade war that stops at USD 400 bn of Chinese exports to the US being hit by a 10% tariff and all US exports to China by 25% leads to 0.5 percentage point lower growth in 2019 and 0.8 pp in 2020 (versus the baseline without a war). For the US these figures are 0.7 pp and 1 pp, whereas Chinese growth is affected by 0.8 pp and 1.3 pp. Clearly no small fry. On trade, bilateral US-Chinese growth could be 25% lower. At the same time, trade diverts as well. Three-quarters of Chinese exports to the US would be diverted to the rest of the world. EU exports to the US would increase by USD 50 bn. The net impact for the rest of the world for trade with China is negative. China will import more from the rest of the world to replace the US imports, but as exports fall its demand for imports declines.

But it is not all doom and gloom in trade matters at this point. We have already highlighted that fears of a global trade war, which would have drawn in the EU, have abated – at least for the time being. Furthermore, in our May outlook we have indicated that various other countries have accelerated their negotiations on free trade agreements. In this context, we referred to South American countries, the revamped TPP, and the EU in relation to treaties with Japan, Mercosur and Mexico. That process has not stalled. Even the North American trade agreement has been renewed.

We also observe that the average number of trade facilitating measures taken monthly by WTO members versus trade restrictive measures (net trade facilitation) has remained positive this year. In 2018 so far, the value of trade covered by trade-facilitative measures totalled USD 107 bn, exceeding the USD 85 bn touched by trade-restrictive measures. Both numbers come with a snag though as the number of trade restrictive measures is leaping up, whereas the ratio of the amounts for trade facilitation versus trade restriction has significantly worsened as well. The figures moreover, do not include the recent events between the US and China. For 2019 there will undoubtedly be pressure on global trade growth, which could easily dive below 3%.

Box 1 Tariffs and global value chains.

As tariffs hit the product every time it passes the border, if a product indeed passes that border several times, the tariff may hit disproportionally. Kutlina-Dimitrova and Lakatos (2017)[10] call this 'cascading trade costs'. Assume for example China exports USD 100 worth of goods to the US 100 who re-exports it back to China for 150. The product is subsequently consumed in the US for 200. Now consider the impact of a tariff of 10% in both the US and China. The first export to the US is hit by a 10% tariff, raising the price to 110. The US adds 50 value, which means the export price is 160. That value will be hit by a 10% Chinese tariff so that the cost for the Chinese producer is 176. The Chinese firms adds 50 value, raising the export price to 226. In the US another 10% will be added before the good reaches the consumer at a price of 248.6. Then, whereas the 10% levy on 200 suggests a price of 220, it turns out to be 248.6, effectively a nearly 25% tariff. The 15% difference between the announced and effective tariff is the cascading effect, or disproportional extra cost.

Commodity prices feel the heat

Commodity markets are unscathed by the unfolding trade war. Metal prices, which include basic metals such as copper, aluminium, tin, zinc, lead and uranium, have fallen 11% since the last Outlook. Copper showed a comparable picture, although prices showed some recovery in late September. The price decline for zinc and nickel was even stronger, whereas aluminium recorded a lower decline than the overall index. Steel and iron ore prices, however, held up reasonably well, with steel even picking up.

Indeed, the price pressure for metals contrasts with our rather upbeat expectations formulated in the previous outlook, which was rooted in favourable fundamentals[11]. Demand would gradually eat up supply surpluses, although the trade policy uncertainty would contribute to price volatility. Now we have an unfolding Sino-American trade war and China plays a dominant role in the

[10] Kutlina-Dimitrova, Z. and Lakatos, C. The Global Costs of Protectionism Policy Research Working Paper 8277, World Bank, Washington.

[11] Our upbeat expectations resounded in the growth expectations of the metal price by the World Bank of 9% for 2018 (versus 27% in 2017).

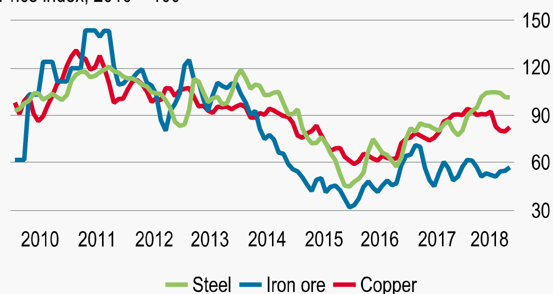
commodities market[12]. Chinese exports may be hit by tariffs as they become less competitive due to their high import intensity. In addition to Chinese demand slowing more than expected, other emerging economies like Argentina, Brazil, and Turkey have some growth disruptions as well. That will reinforce the pressure on demand for commodities. A rising US dollar, and mirroring depreciating currencies of emerging economies, have a negative impact as well. The picture, in short, has become considerably more negative than in May.

In spite of this, iron ore prices have fared reasonably well, largely moving sideways in 2018 so far. Over the summer, Chinese imports of iron ore have even risen. Especially high-quality iron ore is in demand, as Chinese steel mills are required to reduce their emissions. Such environmental regulation is also felt on the supply side, causing Chinese iron ore production to decline 43% y-o-y in July. But Australian suppliers have pushed up exports to fill the Chinese gap, restraining upward price pressure.

Critical for the global steel price development is the announced Chinese production reduction. It should alleviate fears of Chinese dumping, especially now that the US has raised 25% tariffs. Still, the European Commission has taken precautionary measures, which have EU prices climbing by approximately 12% since Q3 2017. Chinese prices are up 6% on the back of the announcements to support economic growth if needed, and that the city of Tangshan (a steel-producing region) will begin capacity restrictions during the autumn. There are also signals inventories are wearing thin. Chinese exports were down 19% y-o-y in August. In contrast, US steel prices have peaked and have dropped off recently after a run of more than 40% since Q3 2017[13]. The feared dumping of Chinese steel has not (yet) occurred. Steel prices are diverging in the three major global steel markets. The unfolding trade war is a major determinant.

1.6 Commodity prices feel the heat

Price index, 2010 = 100



Sources: Macrobond, Atradius

Future metals prices are now – despite announced Chinese policy measures – facing somewhat less robust fundamentals, as a more-than-expected weakening of global demand has taken away part of the upward pressure on prices. Meanwhile, as Chinese supply restrictions seem to gather more pace, some of the related uncertainty disappears as well. On the other hand, the impact of the unfolding trade war, and potential further escalation, is still keeping the market in its grip. This creates a less optimistic picture of commodity prices that are most likely moving sideways in the forecast period as uncertainty remains high.

Supply side dominates oil price surge

In the May Outlook we signalled that oil prices had moved up to a range of USD 60 to USD 70 per barrel of Brent from a trough of USD 44 in June 2017. This range was underpinned by disciplined OPEC+ production behaviour[14], with members' compliance rates of 128%. Since then, however, the price has broken through the USD 70 ceiling surpassing USD 80. This is indeed almost double the level of mid-2017.

1.7 Oil price corridor shifts further upward

Daily spot price, USD per barrel Brent

Source: Macrobond

There is an underlying long-term upward trend in the oil market, and the risks along the way are on the upside. Fossil fuels remain indispensable for meeting energy demand over the coming decades. Investments need to be sufficient and properly timed to provide for a relatively smooth path. If not, upward price swings due to supply constraints occur. Looking at current investment levels, these indeed look constrained. In 2017 there was a modest increase of 4% versus 2016, which was the second year of 25% compression. For 2018 a 5% increase in investment levels is expected[15], with only US investments up considerably, by 20%. Moreover, these are focusing on existing outlays, the share of investments in new projects is only one-third, the lowest level in years.

[12] China has accounted for 83% of the global increase in metals consumption over the past two decades. It is furthermore the single largest consumer in aluminium, refined copper and lead. See World Bank. Global Economic Prospects, June 2018.

[13] To calculate this figure, and the ones for China and the EU, we have used Oxford Economics figures for the hot roiled coil (HRC) benchmark.
[14] OPEC + is OPEC plus Russia.
[15] See International Energy Agency, World Energy Investment, July 2018.

This is clearly not the whole story: several other, predominantly supplyside, factors come in. First and foremost the sanctions that the US has imposed on Iran in conjunction with its withdrawal from the multilateral nuclear deal are expected to hit the market by November. Iran oil exports may be hit to the tune of 1.3 million barrels per day (mb/d), a figure that is based on the impact of the 2012 sanctions. OPEC+ is not even making up for current supply disruptions in Libya, and, especially, Venezuela where H1 production fell almost 30% y-o-y. The Saudi Arabian and Russian production increase was only 3% and 2% respectively, creating an overall OPEC+ contraction of 2%[16]. On the other hand, US production grew rapidly, at a pace of 15% y-o-y in July, restricting the price surge. But there are bottlenecks in pipeline transport to limit further growth, with pipeline investments also being slowed due to US steel tariffs[17]. Meanwhile, demand growth has continued, albeit at a weakened pace recently in the wake of the slowdown of global GDP growth: Q2 oil demand grew 0.8% y-o-y versus 1% in Q1.[18] The result of this supply and demand forces is that inventories are declining: in June the eighth fall in eleven months was recorded. In short, whereas demand growth dominated the late 2017 and early 2018 price run, it is the supply side that has taken over.

The question then is what this means for future prices. As far as the financial market is concerned, oil seems somewhat overpriced. At least that is what future curves, which are 'backwardated', suggest; futures prices are lower the longer the maturity. This is in line with market fundamentals. Global GDP growth is slowing, which in turn means demand for oil should slow, especially from China. Thus, whereas oil demand is expected to grow 2% in 2018, it can slow to 1.4% growth in 2019. Supply is expected increase 1.8% and 1.6% respectively. Key to this is that the US production increase is sufficient to compensate for the lower ouput from Iran and Venezuela. Moreover, Saudi Arabia and Russia are expected to ramp up production as well. Prices are then forecast to fluctuate in the mid- to high 70s. As usual, volatility is perhaps the only certainty in the oil market.

This rapid increase in the price of oil has significant ramifications for the global economy, especially EMEs that are net oil importers. In case of a demand-led increase of the oil price, as we saw before this summer, oil importers' exchange rates will take a hit (provided they are flexible). The exchange rate fluctuation keeps the deficit of the current account in check by stimulating exports and slowing imports. Look at what happens if the supply side dominates, as occurred over the summer, and demand is weakening. In this situation, we observe an exchange rate depreciation as well, but one that should be more pronounced to achieve a similar current account adjustment as in the case of a demand-led shock. The reason is that external demand is simply less strong so that exports need more stimulus to rebalance the current account. Moreover, finance opportunities are less favourable if GDP growth is weakening. Interest rates will have to be pushed up to lure investors from abroad, which in turn has a detrimental effect on GDP growth.

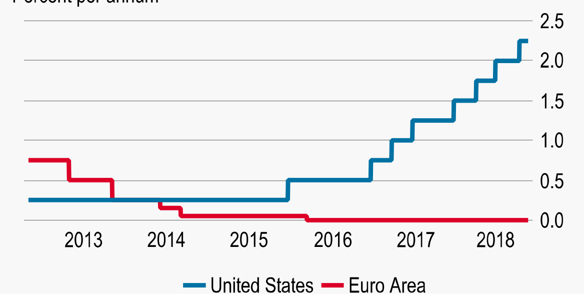
Two current factors in the global economy may further worsen the impact of the oil price surge. Firstly, as we have already described above, global trade is under pressure and a trade war is unfolding. This is not precisely the climate to gear up exports, whereas imports become dearer due to tariffs. Secondly, the higher need for finance will come at a time when the monetary authorities are already tightening. An oil price surge is never welcome for oil importers, but is particularly not so at this moment.

Monetary policy tightening: slow and steady

Both the Fed and the ECB seem to be well aware of the situation and are treading carefully in monetary policy normalisation. The Fed is well ahead in this game, with a set of rate hikes and mopping up parts of the quantitative easing (QE) program. The Fed has hiked rates twice since May, both steps of 25 bps, and has reduced its balance sheet by USD 260 billion since mid-2017, slightly below the USD 300 bn target. The ECB on the other hand has only recently announced it will terminate its QE programme by the end of this year, and that is only the preliminary step of tightening. We discussed such steps already in our May outlook. In monetary policy, matters are currently moving slowly and steadily.

1.8 ECB vs Fed policy rates

Percent per annum



Source: Macrobond

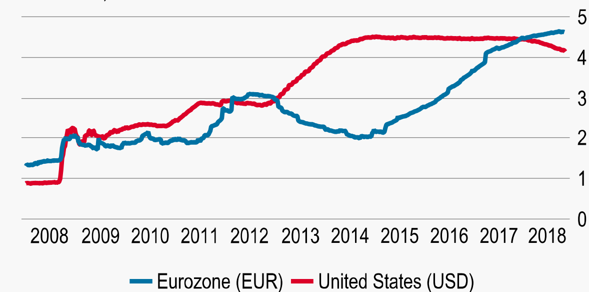
[16] In June, OPEC+ plus decided to boost output by 1.6mb/day, of which 1.2mb/day in OPEC.

[17] These bottlenecks reflect in the US oil benchmark, WTI, which now trades at a discount of almost $10 per barrel to the global Brent benchmark (early October figure).

[18] Base effects may play a role here: Q1 2017 was slow, Q2 strong.

1.9 ECB and Federal Reserve balance sheets

Total assets, trillions



Sources: Macrobond, Federal Reserve, ECB

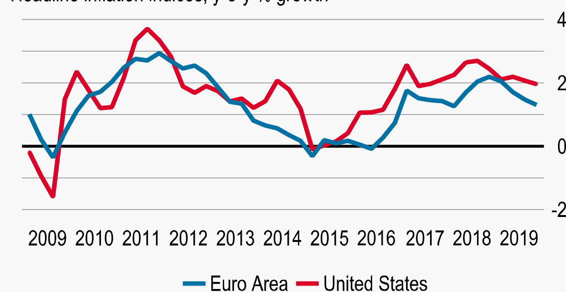
This cautious policy approach provides calm in the financial markets, but this is not a given. Especially for the US one can question whether an acceleration of tightening is justified. Policy hawks, which favour such acceleration, point at the buoyant US labor market. With an unemployment rate at a 49-year low of 3.7%, the bottom seems to have been reached. This is corroborated by the participation rate, hovering just below 63%. Moreover, all other main measures of labor market utilisation reported by the Bureau of Labour Statistics are at or below pre-crisis troughs[19]. With these figures, it seems the Fed need not worry about the employment leg of its mandate and can instead focus on managing inflation around 2%. With such a tight labour market, wages should be pushed up, translating into inflation. It is not that wages in the US are not being pushed up, wage growth has accelerated to 2.8% y-o-y in September. This is just not the level that is expected in view of the labour market tightness and it is still not translating into serious price pressures. The Fed's preferred inflation measure has been steady between 1.9% and 2% since March. Moreover, given that the impact of the fiscal stimulus is expected to fade or at least significantly diminish, GDP growth will slow, relieving inflationary pressures. Indeed, US inflation is only forecast to average 2.1% in 2019. This is not exactly the dataset to support acceleration of monetary policy tightening. This implies a continuation of cautious rate hikes, one more in 2018 and another two in 2019, as well as continuation of gradually unwinding QE. The latter is framed by using caps for reinvestment of bonds that run off, a cap that has now reached USD 50 billion per month. Although we have no details on repayment schedules of the assets, it may be safe to state that QE unwinding in the US will be a slow process.

Meanwhile in the eurozone, the pace of job creation has remained solid as well and has driven the unemployment rate to a nine-year low at 8.2% in July. This figure should improve further now that the survey indicators still indicate employment growth, albeit at a slower pace. Moreover, indicators of labour shortages have softened in some sectors and countries, but they remain at historically high levels[20]. The (heterogeneous) eurozone labour market, therefore, is characterised by slack as well as tightness. The latter helps push up wage growth, which has gone up recently by 1 percentage point while the figure remains fairly muted at 2.5%[21]. The result is that inflation, excluding energy and food, has hardly picked up, hovering around 1%. Headline inflation though did pick up and hit the 2% ECB target in August, a rise from the 1.3% earlier in 2018 that predominantly originated in higher energy prices. Furthermore, survey-based inflation expectations point at a prolonged period of low inflation. For 2019 this translates into a gradual slide of inflation, to 1.7% on average. This picture makes significant rate hikes before H2 2019 unlikely. Monetary policy normalisation in the eurozone, therefore, is still a way off and will be a slow process anyway.

With the Fed slowly tightening and the ECB still having to start the process, global monetary conditions remain very loose. Yet we observe inflation only creeping up – and to levels not in accordance with these loose conditions. This is somewhat at odds with our expectations, vented for example in the May outlook. In short, the so-called 'Amazon' effect that comes from firms moving to on line sales cannot be expected to last forever[22]. The question therefore is if this view is still tenable.

1.10 No clear sign of inflation pick up

Headline inflation indices, y-o-y % growth



Sources: Macrobond, Oxford Economics

Economists are still trying to come to grips with this phenomenon of low inflation while the output gap is closing. There are new arguments being put forward that suggest low inflation is there to stay[23]. First, there may be more slack in the labor market than reflected in the data, due to long term unemployed that struggle to meet the

[19] E.g. the rate of turnover in the labor market is highest since 2001. For each job opening there are 0.82 hires and 0.9 unemployed. See The Economist, September 10, 2018.

[20] ECB Economic Bulletin, Issue 6/2018.

[21] The trend is upward. Recent pay rises concluded by collective bargaining for Germany and Finland support that. They are all above 3%. See Financial Times, October 5th, Eurozone, 'Eurozone wage growth puts Draghi inflation goal in reach.'

[22] Moving online lowers costs for firms, especially in retail, and also triggers more competition as e.g. price comparison is more easy.

[23] Bank of International Settlements, Annual Report, June 2018.

skill requirements[24], as well as structural changes such as increasing participation rates (e.g. 55 plus employees returning to the labor market)[25]. Second, globalisation, leading to more cross-border competition in the labour market, creates opportunities such as outsourcing. Third, technological developments and its diffusion increase improves productivity, simply not matched by wage growth, while concentration reduces the number of employees (firms).

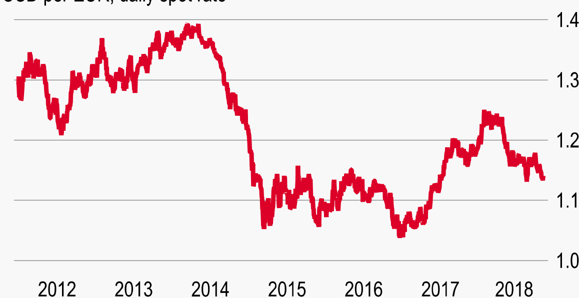
That does not mean that there is considerable upward potential. This is simply due to very low unemployment, especially in the US and some parts of the eurozone. Moreover, the unfolding trade war poses a clear upward risk to inflation. Tariffs may simply end up passed on to consumers, creating a somewhat worrying picture. This is because lower growth and higher inflation leaves the central banks impotent: they have to raise rates to beat inflation, adversely impacting financial conditions, but lower them to stimulate the economy[26].

Dollar surge hits emerging economies

Despite treading carefully, the movements of the Fed have led to significant changes in the financial markets since the spring. Not so much in the bond markets, where yield differences between the US and eurozone have moved in line with monetary policy. Short-term US yields have moved up further while eurozone yields have barely nudged, wielding the inflation differential. For long-term yields, which should reflect the inflation differentials, the story is similar. The surprise is in the currency markets, where we have seen the dollar surge.

To interpret the dollar appreciation, we need to take a step back to our May outlook. There we discussed the – at the time – rather surprising dollar weakness, under a similar yield differential pattern as we observe now. We attributed the dollar weakness to i) a GDP growth catch-up effect as the eurozone and the rest of the world positively surprised versus the US; ii) dollar lending in the rest of the world triggering dollar offerings to obtain other currencies; and iii) (for the euro-dollar rate specific) shifting expectations versus the ECB monetary policy, viz. announcement of 'tapering' monetary expansion. The latter was considered to have a one-off effect on the exchange rate.

1.11 USD regaining strength vis-à-vis EUR
USD per EUR, daily spot rate



Source: Macrobond

Now, let us consider the dollar's significant strengthening against the euro. The immediate explanation is that the growth differences between the US and the eurozone have widened this year. Moreover, the Fed has continued tightening and that process is expected to carry on. Yields continue moving up. What helps as well is that the unfolding trade war has had only a limited impact on US growth so far. At the same time, it creates a lot of uncertainty for the rest of the world, triggering longer term money flows towards the US and pushing the dollar up further.

The greenback is also appreciating against EME currencies which is exacerbated by idiosyncratic problems in a number of emerging economies. A closer look is presented in Box 4 'High capital outflows are a wakeup call for emerging markets'. The dollar appreciation is a concern for emerging economies especially those with currency mismatches through unhedged USD borrowing. In this environment, investments are constrained and so are exports, straining GDP growth. For emerging economies, the impact of a currency depreciation should be carefully considered.

Sentiment turns in the equity market

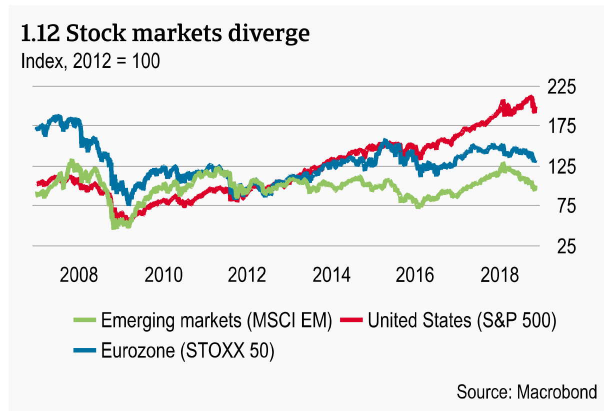
In view of the above analysis, especially related to the bond market and the depreciation of currencies of emerging economies, it comes as no surprise that the MSCI Emerging Market index has taken a considerable hit over the summer. It has lost more than 15% of its value since May, signalling that sentiment towards emerging economies has sharply turned. The Shanghai stock market index suffered a loss of 15% since early June. The European index has been under some mild pressure with a loss of 5%. Over the same period the US S&P 500 gained almost 10%, amid buoyant GDP growth and

[24] This is the so-called hysteresis, with long term unemployed since the financial crisis of 2008 possessing 'rusty' skillsets.
[25] In the case of higher participation the total size of the employable population goes up. Previous unemployment data the underestimated unemployment.
[26] This holds specifically for the Fed with its dual mandate of inflation containment and low unemployment. And in a way also for the ECB as it will concentrade on reducing inflation. Inflation is providing a false signal in that case, as it suggests high activity, whereas it is actually low.

employment figures underpinned by fiscal stimulus as inflation reached the Fed target. Notably, the US rally has continued as implied volatility, as measured by the VIX index, has declined significantly since the early February spike. It is now also below levels in other advanced economies. [27] Not all is good, however. During the summer, the cost of insurance against a large drop in the S&P 500 index, as measured by the SKEW index, became much more expensive since May. It suggested the risk of such an event went up. Moreover, a cyclically-adjusted price-earnings ratio index, as introduced by Nobel Laureate Robert Shiller, is at its highest level since the crisis[28].

1.12 Stock markets diverge

Index, 2012 = 100



Source: Macrobond

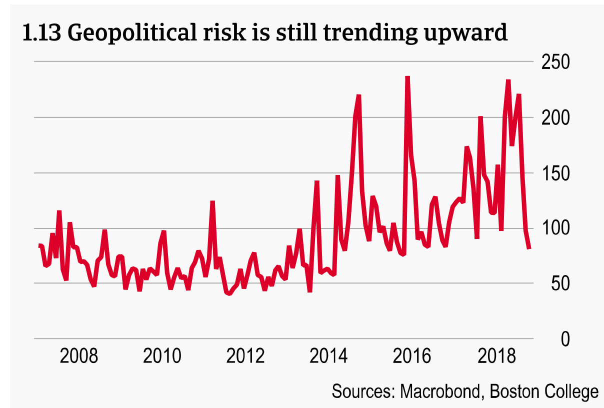
We are thus facing the situation of an ongoing rally in the US market, whereas the eurozone and, especially, emerging economies indices face pressure. Moreover, the risk of a large correction in the US equity market has gone up. Our conclusion is then, in line with the market, that a correction in the US equity market is a question of when, not if. The scale is uncertain, but the probability of such an event has increased.

Such a correction may not be limited to the US (with ripples to the rest of the world) if the underlying cause is a change in risk attitude. Particularly, if investors, perhaps spooked by the unfolding trade war or fear for a more hawkish Fed, start to judge the risk related to the global economy significantly less favourably, especially EME equities may be hit. That in turn may have global financial market ramifications.

Geopolitical risk trend remains upward

In our May outlook we have introduced the geopolitical risk indicator, used to track the risk that comes from geopolitical tensions[29]. It covers the uncertainty that comes with the threat of wars, terrorist attacks and tensions between countries. It is the threats that count, not so much as the events themselves. Threats are considered to create uncertainty and have a negative impact on decisions by firms and households.

1.13 Geopolitical risk is still trending upward



Sources: Macrobond, Boston College

The indicator is volatile but on an upward trend. This does not really come as a surprise. The US has unilaterally withdrawn from the Iran nuclear deal in May and re-imposed economic sanctions that were lifted after the 2015 agreement that included China and the EU as well. This rift was already building based on the US approach towards the WTO and, at some points, NATO. Moreover, the US is building a trade war with China, with no end in sight. More broadly, the unilateral approach towards international relations by the US, as well as its policy unpredictability creates tensions amongst allies. In the EU, tensions are building due to the behaviour of Italy, whose populist government is on course to defy EU budget rules. If put in place, tensions in the eurozone, and the EU, will flare up. Such tensions are already up between the EU and the UK on a Brexit withdrawal agreement. Reduction of these geopolitical uncertainties will clearly help support global investment and GDP growth.

Risks to the outlook

The risks to our economic outlook have increased in the past six months. The trade war between the US and China is unfolding as the US stock market rally has begun to falter. EME growth is already under pressure due to Fed tightening and the probability of Fed policy causing global financial market turbulence continues to rise[30]. Geopolitical tensions are growing as the risk of an upward oil price adjustment continues to increase. The only risk we consider to have reduced is that of a hard landing in China. This may seem inconsistent now that China will be

[27] See BIS quarterly report, September 2018.
[28] See http://www.multpl.com/shiller-pe/
[29] Note the distinction with the Economic Policy Indicator discussed earlier, which covers uncertainty related to economic policy.

[30] Not so much though that we would assign the probability of such an event to 'high'.

Table 1.3 Risks to the global economic outlook

	Risk	Symptoms	Effects	Probability	Impact
1	Trade war proliferation	Trade war between US and China extends to EU	Severe constraints on global trade	moderate	high
2	Misguided Fed policy	Financial market turbulence, flows to emerging economies plummet	Tighter credit for firms in emerging economies; debt service issues	moderate/low	high
3	Financial market correction	Strong, rapid and sustained correction on equity markets, not triggered by risk 1-2 or 4-6. Can be reinforced if investors become more risk averse.	Fall in confidence affecting spending. Negative wealth effects households affecting consumption in the US, with global impact, epecially if investors become more risk averse.	low/moderate	moderate
4	Geopolitical risk	European politics: Italy, hard Brexit. Increasing tensions in Middle East, especially between Saudi Arabia and Iran.	European politics: Italian yields much higher, much lower growth EZ; hard Brexit: 2019 growth depressed in UK and EU. Middle East: Lower oil production and GDP, oil price volatility, fall in confidence.	low/moderate	moderate
5	Oil price volatility	Lagging oil industry investments with strong demand. Pressure on oil price stocks.	Uncertainty affects confidence, especially firms. Unexpected swings in inflation. Lower investment.	low/moderate	moderate
6	China hard landing	Unstable banking sector, credit constraints, acceleration capital outflows, pressure on currency	Financial market volatility, spill-over into dependent emerging economies	low	moderate

Source: Atradius Economic Research

hit by the unfolding trade war, but the authorities are well equipped to mitigate these risks.

Trade war proliferation. The unfolding US-China trade war may expand with the US implementing higher tariff rates on existing imports from China and/or expansion of tariffs on the remainder of imports. In all cases, China will respond with countermeasures. Further proliferation may occur in case the US administration walks away from the truce with the EU and starts imposing tariffs as well. Global growth will then take a serious hit, one clearly beyond the 0.5% and 0.8% in 2019 and 2020 versus the baseline for a more restrained trade war.

Misguided Fed policy. Within the current framework and the unfolding trade war, the Fed may be forced to accelerate tightening, taking the financial markets by surprise. Moreover, as discussed in the text, a scenario of inflation and low demand, stagflation, may occur as the trade war unfolds, leading to monetary policy becoming, in principle impotent. In such case the Fed may have to choose between inflation targeting, and thus tightening, and demand management, with the opposite approach. Then, the much-lauded forward guidance comes under pressure. That will have global ramifications.

Financial market correction. Depite the unfolding trade war, the US equity market has continued to thrive. Still, the risk of a large correction has increased, as signalled by the SKEW index. The Shiller index also indicates that prices may have peaked. We consider a correction inevitable. The events in the second week of October, during which the US equity market lost almost 6%, with European stocks and those of emerging economies losing as well, underlined that such corrections have global ramifications. If risk attitudes change and investors become more risk averse, such a correction will be reinforced, especially impacting the emerging economies.

Geopolitical risk. The geopolitical risk indicator signals elevated levels of geopolitical risk. That hampers growth, especially via lower household and business confidence. This is not only reflected in trade matters. The withdrawal from the Iran nuclear deal by the US has created a rift with its traditional allies, a situation which extends to NATO and WTO as well. Apart from the US, intra-European tensions are up now that Italy seems to be on a collision course with the EU related to its budget. The possibility of a hard Brexit is another matter of concern, given the fragmented political situation in the UK.

Oil price volatility. As supply factors have taken over as the dominant oil price driver, oil price volatility is bound to last and a gradual (upward) development is at risk. Sufficient investments are lacking and increased volatility will not be of help for those decisions either. Then, large swings in the oil price will push up uncertainty and hamper resetting of macroeconomic adjustment policies. Global growth will be negatively affected in such a scenario.

China hard landing. The Chinese authorities have proven consistently able and willing to uphold the GDP growth targets that were set for the economy. We therefore consider a hard landing of the Chinese economy, in which case GDP growth lowers to around 4% to 4.5%, to have a low probability. Still, stimulus to achieve growth will come at the costs of increasing financial vulnerabilities. That, in turn, will force Chines authorities to pursue a more aggressive course on restraining credit growth at a later time.That would bring in the possibility of a hard landing again. For that reason, we cannot discard it.

2. Advanced economies – prospects and risks

Divergent outlooks subject to policy risks

On average, advanced economies are losing some steam this year and should continue to do so next year. While aggregate growth for advanced economies is steady at 2.3%, this masks the marked slowdown in growth across Europe and sharp acceleration in growth in the United States. In 2019, the US economy will likely cool off slightly from its pro-cyclical fiscal stimulus which will bring it more in line with the more moderate performance of other developed markets. Aggregate growth next year is forecast to ease to 2.0%. This slowdown could prove more rapid though due to the elevated policy uncertainty increasingly seen in advanced markets. The US administration's unilateral approach to foreign affairs or a potential misstep in monetary tightening could end up being a shot in the US's own foot. The new Italian government could destabilise the eurozone while a hard Brexit could harm growth in the UK, Ireland, and other EU countries.

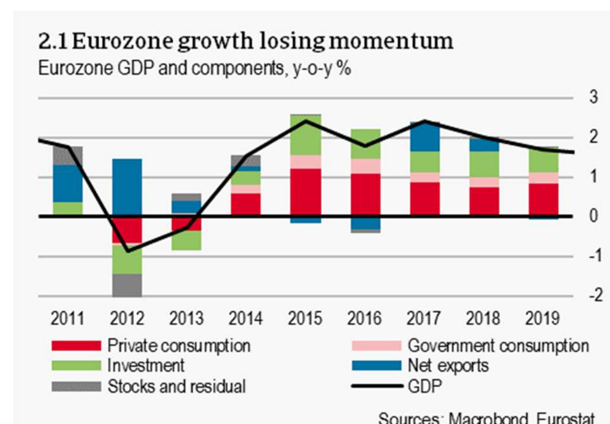
Table 2.1 Real GDP growth (%) - major markets

	2017	2018 f	2019 f
Eurozone	2.5	2.0	1.7
United States	2.2	2.9	2.5
United Kingdom	1.7	1.3	1.5
Japan	1.7	1.1	1.1
Advanced Economies	2.3	2.3	2.0

Sources: Oxford Economics, Atradius

Eurozone: growth shifting down a gear

The eurozone economy continues to expand at a solid pace, but is expected to shift into a lower gear this year. Eurozone GDP is expected to expand by 2.0% in 2018, compared to 2.5% in 2017. Growth remains broad-based. The outlook for this year is slightly more negative than we expected during the Economic Outlook of May 2018. In 2019 we forecast GDP growth to weaken to 1.7%.



Average quarter-on-quarter growth in the eurozone slowed to 0.4% in the first half of 2018, compared to 0.7% in the first and second half of 2017. The softening of the European Sentiment Indicator (ESI) and the composite PMI in recent months suggests the eurozone economy

continues to grow at a slower pace for a longer period of time. Risks are skewed to the downside. Several external uncertainties (protectionism, turmoil across emerging markets) and internal risks (policy uncertainty in Italy) could further weigh on economic activity.

Domestic demand remains the main pillar of GDP growth. Consumption growth is expected to weaken somewhat this year owing to modest wage gains in combination with higher inflation. Exports are encountering headwinds from a worsening global environment and an appreciating real effective exchange rate.

Table 2.2 Real GDP growth (%) - eurozone

	2017	2018 f	2019 f
Austria	2.7	2.8	2.0
Belgium	1.7	1.4	1.5
France	2.3	1.6	1.7
Germany	2.5	1.8	1.6
Greece	1.3	2.0	1.8
Ireland	7.3	6.1	2.5
Italy	1.6	1.1	0.9
Netherlands	3.0	2.8	1.7
Portugal	2.8	2.1	1.7
Spain	3.0	2.5	2.3
Euro Area	2.5	2.0	1.7

Sources: Oxford Economics, Atradius

External environment becoming less supportive

While the global economy is maintaining momentum, world trade is showing some signs of weakening. The real effective exchange rate of the eurozone appreciated 2% since our Outlook of May 2018. The appreciation of the real effective exchange rate, rising uncertainty over the US-China trade war and vulnerabilities in emerging markets will weigh on eurozone export growth in 2018-2019. We forecast export growth to slow to 3.2% this year and to barely increase from that level to 3.5% in 2019, compared to 5.5% in 2017.

In the short term, we are mostly concerned about lower growth in parts of the emerging world. Emerging markets with high current account deficits and foreign-denominated debt have recorded sharp currency depreciations and growth there is expected to slow. In the medium term, the unfolding trade war between the US and China, and Brexit continue to cloud the outlook. The US has levied import tariffs on steel and aluminium imports, including imports from the EU. Brussels has retaliated against the steel and aluminium tariffs by imposing measures on a wide range of US products from the Republican heartland. A recent meeting between US President Donald Trump and EU Commission President Juncker has averted further escalation of the trade dispute for the time being. Potentially more damaging for the eurozone is the unfolding trade war between the US and China, which could indirectly also affect European exports.The UK and the EU continue to clash over what a future trade relationship should look like, meaning that the possibility of a hard Brexit still cannot be ruled out. What a hard Brexit would mean for the EU is further explored in Box 3.

Domestic demand to carry growth

Domestic demand remains the main growth engine contributing 1.4 percentage points to 2018 GDP growth and 1.5 percentage points to 2019 growth. The main internal risk threatening the growth outlook in the eurozone is political uncertainty in Italy, where the populist government is taking a confrontational stance with the EU regarding immigration and budget discipline. This led to rising Italian yields as financial markets worried whether government debt was still sustainable (Box 2).

In the eurozone, the pace of job creation is showing no signs of weakening. In 2018 H1 a total of 1.4 million jobs were created in the eurozone on a seasonally adjusted basis, compared with 1 million jobs in the second half of 2017. For the remainder of this year we expect the rate of job growth to remain solid and the 2018 unemployment rate is expected to average 8.3%, compared to 9.1% in 2017.

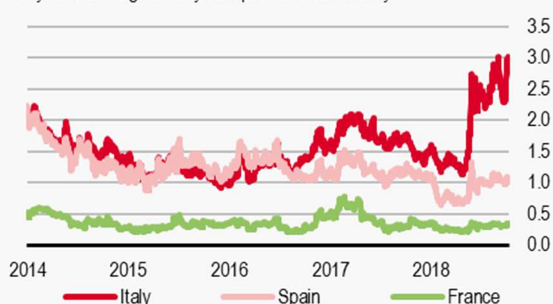
Wages are picking up, but are generally not enough to offset the rise in inflation. Wage growth is highest in countries with relatively tight labour markets, such as Germany and Ireland. Inflation increased since the start of the year, reaching 2.1% in September compared to 1.3% in January. Consumption growth is expected to reach 1.4% in 2018.

The ECB lowered its monthly net asset purchases under the extraordinary monetary stimulus programme to EUR 15 bn at the end of September and is expected to terminate purchases altogether by the end of this year. The ECB seems sufficiently convinced that inflation will converge to its medium-term target of 2%. While recent headline inflation figures support this view, the rise in inflation in recent months was in part driven by higher

Box 2 Italy's government to test fiscal space

Italy is one of the most vulnerable countries in the eurozone due to its low economic growth, high public debt and still vulnerable banking sector holding high levels of public debt. Post-financial crisis performance has been dismal. GDP growth has averaged just 0.2% per year since 2010, compared to an average of 1.5% in the decade preceding the 2008 financial crisis. Government debt increased from just over 100% in 2008 to 130% in 2018 and was expected to gradually decline under the previous government. However, Italy's new populist government, formed in the early summer, proposed an ambitious economic agenda earlier this year that would cost around EUR 100 billion per year (5.5% of GDP). If enacted in full this would lead to a dramatic deterioration in the fiscal deficit. Budget plans of the Italian government that were published in September indicate the government is aiming for a more modest programme that pushes the government deficit to 2.4% in 2019, from a target of 0.8% set by the previous government. Still, the government forecast the debt ratio to decline. The closer the budget deficit will be to 3% of GDP, the more likely it is to trigger a sharp negative reaction from the European Commission and from financial markets, which would rightly worry about government debt becoming unsustainable and pose a threat to the banking sector as well. The difference between yields of Italian government bonds and those of Germany spiked after the election of the new government and around publication of the budget plan. This should be seen as a sign of discomfort with the government's ambitious spending plans.

Italy's rising yields
10-year sovereign bond yield spread with Germany



Source: Macrobond

energy prices. Core inflation (inflation excluding energy and food prices) remains low at 0.9% in September 2018.

Investment growth is expected to remain relatively stable this year and in 2019 compared to 2017. Business investment is supported by strong sentiment, favourable financing conditions and high capacity utilization. Bank lending to non-financial corporations and households continued to expand over the first half of 2018 and bank lending rates remain close to their historical lows. The continued dynamism in housing markets supports residential investment, driven by increasing house prices, favourable income prospects and low interest rates.

Banks have made progress in consolidating their balance sheets: nonperforming loans (NPLs) have been reduced further, although the level of such loans remains high in some countries (Italy, Greece), and capital positions have improved. However, the pressure to further shore up balance sheets continues to weigh on lending growth.

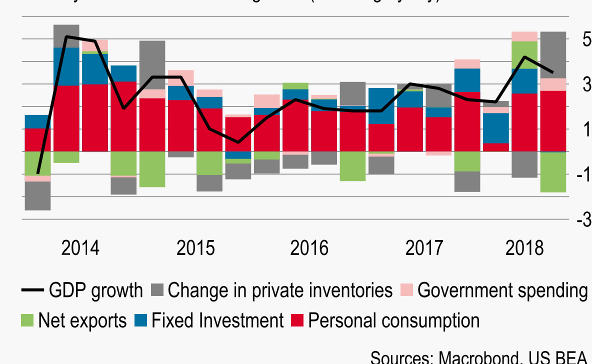
US economy still hot in the face of rising policy risks

While US policy uncertainty has taken the lead as one of the key risks to the global outlook, the American economy is firing on all cylinders. Broad-based growth should provide insulation from potential policy missteps – especially related to trade, but also overheating from further pro-cyclical stimulus driving faster interest rate hikes – through 2019. But these downside risks may cause localised pain and/or bring the next downturn on earlier. The US economy is on track to expand 2.9% this year – its highest annual growth rate since 2005. With household and business confidence still strong and solid momentum entering Q4, the outlook for 2019 has strengthened. We expect to see another 2.5% expansion.

Strong outlook with some signs of moderation

The US economy is enjoying broad-based growth: private consumption remains the primary driver as inventories show the only negative drag on GDP growth thus far in 2018. Business investment continues to grow steadily, unfazed by trade policy uncertainty and supported by deregulation and government spending. Since Q4 of 2017, tax cuts and higher spending have caused a positive boost to growth from the government spending component as well. With a one-off surge in soybean exports ahead of Chinese tariffs, GDP growth increased to a whopping 4.2% year-on-year in Q2. Momentum remains strong with Q3 recording 3.5% growth, but it is likely that Q2 marked this cycle's peak.

2.3 Investment continues to drive US GDP growth
Quarterly contributions to GDP growth (% change y-o-y)



Sources: Macrobond, US BEA

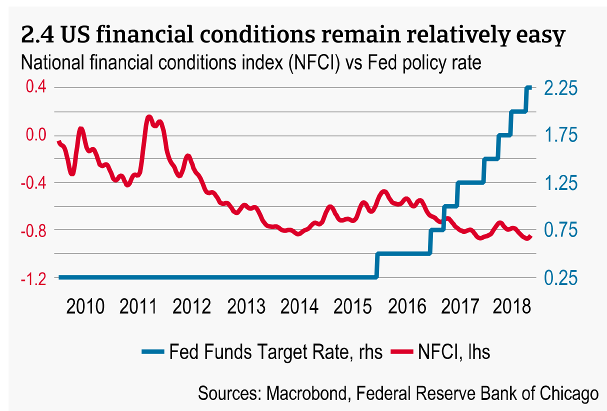
Supported by fiscal stimulus and energy prices, business investment is showing some of its most buoyant growth yet in this recovery cycle. Investment growth surged 8.7% in Q2 and is expected to total 7.0% this year. Crude oil production is increasing rapidly, from 9.4 million barrels per day in 2017 to 11.8 mb/d in 2019. Energy sector activity is a key driver of the strong business outlook. But overall momentum is beginning to wane as the lagged effects of tax cuts fade out, the strong dollar weighs on export competitiveness, and higher oil prices and the escalating trade war increases domestic price pressures. As such, investment is forecast to slow to 3.5% in 2019.

Domestic demand remains one of the brightest spots of the economy and shows no sign of slowing down. From 2.5% growth in 2017, private consumption is set to grow another 2.6% in both 2018 and 2019, underpinned by a very tight labour market. Unemployment has fallen further this year to 3.7%, its lowest level since 1969, and employment growth remains robust spanning a wide range of sectors. Wage growth is also showing signs that it may finally be gaining more momentum. At 2.8% (up from 2.6% in May), wage growth is surging higher in some sectors like technology and construction and there are increasingly reports of competition for workers. While this may indicate some slowing of employment growth over the coming year, it should also encourage more workers to come off the sidelines, pushing the participation rate up from its stubbornly low 62.7%.

As wage pressures increase, inflation pressures increase. This should curb some consumption growth. The Fed's preferred inflation measure has been close to 2% since March. Inflation is expected to remain around 2.1% through 2019 as well but with wage growth momentum increasing this should not weigh too heavily on Americans' spending power. It will however encourage the Fed to continue tightening interest rates. While this will make borrowing more expensive, credit conditions remain looser than their long-run average as measured by the national financial conditions index (see figure 2.2).

2.4 US financial conditions remain relatively easy

National financial conditions index (NFCI) vs Fed policy rate



Sources: Macrobond, Federal Reserve Bank of Chicago

Policy risks are elevated

While the economic outlook is positive, policy risks continue to increase in the US. Between monetary, fiscal, and trade policy, the risk that the US shoots itself in the foot late in the economic cycle is high.

The Federal Reserve is on track to continue monetary tightening to maintain the inflation rate at its 2% target as unemployment is at record lows. Despite increasing volatility in global markets due to US monetary tightening, the Fed is increasingly hawkish in its tightening path and encouraged by the robust domestic economy. On top of this, the Fed also continues to demonstrate appropriate and independent action in the face of some controversial criticisms from the Presidency. The target interest rate is now in a range of 2% to 2.25% with one more 25bp hike expected in December. In 2019, we expect at least two hikes. While monetary conditions remain easy, this will increasingly strain business activity and weigh on purchasing power. Too rapid hikes could throw cold water on the hot economy by late 2019, but we expect it to stay stable in line with inflation and labour market readings. With tighter monetary policy will also come more tools at the government's disposal to combat the next economic downturn.

Fiscal policy on the other hand is adding fuel to the booming economy and is taking away items from the toolkit to stimulate the economy in a recession. While robust economic growth, low unemployment and a strong stock market should help rein in the fiscal deficit, massive tax cuts and increased public spending are sharply widening it. The stimulus is indeed contributing to higher GDP growth, but not sufficiently fast enough to keep the deficit in check as it is now forecast to widen to 4.6% of GDP this year. Furthermore, this pro-cyclical fiscal policy fans inflation pressure pushing the Fed to act more aggressively, offsetting the positive impact on GDP. Most critically, less fiscal space and higher debt levels will limit the government's policy options to support the economy in case of a recession, producing a deeper downturn.

Finally, trade policy uncertainty remains a top risk to US businesses and consumers that may bring the next downturn on more quickly than expected in the face of current economic strength. Newly implemented tariffs are already having a negative impact on goods exports. While the USMCA reduces trade risks with Mexico and Canada and dialogue with the EU reduces chances of risk there, the current administration's trade stance remains highly uncertain. Moreover, with all the focus on China, the risk of further retaliation continues to escalate. While this may not be a systemic risk at this point, the negative consequences for some targeted sectors such as technology and agriculture could spell serious localised or firm-level damage. At the economy-wide level, trade policy is set to increase inflation by making imported components more expensive.

Overall, US policymaking is facing a triple threat in the face of an exceptionally strong domestic economy. However, economic momentum remains strong despite being very late in this business cycle, offering confidence that the next recession is not coming up just yet in 2019. It is clear though that policy risks are high, increasing the risk that the recession comes sooner and possibly reducing the government's levers to address it.

Sluggish UK outlook threatened by Brexit disruptions

Amidst political volatility and intense negotiations ahead of Brexit, the UK economy has weakened in 2018. The strong momentum in economic activity going into 2018 dissipated more quickly than expected due to adverse weather conditions in Q1 which caused consumer demand to decrease. Brexit-related uncertainty and demand weakness have prevented a meaningful rebound in growth since. This has motivated a downward revision of the 2018 GDP growth forecast to 1.3%. In 2019, the UK economy is expected to carry on with another 1.5% expansion forecast, but with the country's departure from the EU coming in March, this outlook is subject to exceptional uncertainty.

Slow but steady outlook

Economic growth in the UK is sluggish as domestic demand, which has driven the economic resilience in the aftermath of the Brexit vote, falters. One reason for weak demand is the spike in inflation (averaging 2.5%), caused by the weaker pound sterling and higher global energy prices. While inflation has eased a bit from its highs above 3% a year ago, wage growth remains feeble leaving real wage growth still near zero. Moreover, household savings are nearing record lows which should increase reluctance to continue borrowing. Government welfare reforms, modestly higher interest rates, economic uncertainty pushing up savings, and slowing employment growth will also weigh on consumption growth. As such, consumer spending is forecast to slow to an eight-year low of 1.0% in 2019 from a meagre 1.2% this year.

Recent survey data from the Office for National Statistics (ONS) point to a broad easing of momentum going forward. Activity in parts of the services sector is easing, particularly in the retail, accommodation and food services sectors. UK manufacturers are also facing a deteriorating outlook due to Brexit-related uncertainty putting investment on hold, the fading of the boost to export competitiveness that the weak sterling gave, and weakening global demand. While sterling is sensitive to Brexit uncertainty and is also weak due to dollar strength, it is forecast to strengthen in 2019 assuming an orderly

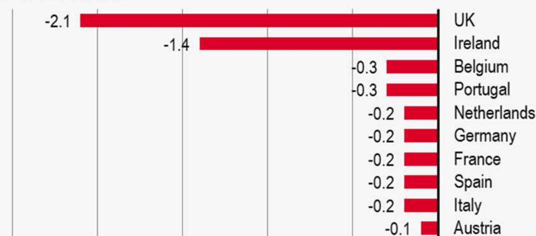
Box 3 No-deal Brexit would also hurt eurozone, but only slightly

If the UK leaves the EU at the end of March 2019 with no deal, it would mark an overnight end to the free movement of goods, services, capital, and people. While the EU is less dependent on economic ties with the UK than vice versa, it would still be hit by this disruption, albeit less severely and less immediately.

Oxford Economics modelling shows a 0.17 pp positive impact of a no-deal Brexit on eurozone growth in 2019. This small boost could be due to some stimulus in pent-up investment diverted from the UK into other European markets as well as some offset from euro depreciation. It would quickly be reversed however by a 0.35 pp loss of GDP growth in 2020. The pain would be felt most acutely in the economies with the closest trade and investment ties to the UK, especially Ireland. The weaker pound sterling would translate to less import demand in the UK and a relatively stronger euro further worsening eurozone export competitiveness.

No-deal Brexit's impact on eurozone GDP

Selected eurozone countries, % difference in level of GDP in Q4 2020 relative to baseline



Sources: Oxford Economics, Atradius

Brexit. This means net exports will drag on growth. Business investment, in particular, is negatively impacted by Brexit uncertainty: falling to only 0.7% per year in 2016 and 2017, it is forecast to increase only to 1.1% this year and 2.0% next.

Disorderly Brexit presents downside risk

This sluggish but stable outlook rests on an orderly Brexit. Just over four months away from Brexit, it remains highly uncertain that a deal will be reached leaving a cliff-edge Brexit a serious downside risk. The agreement on a transition deal, maintaining the current trade arrangement to end-2020 should allow for a smooth transition. But it could be derailed by the failure of the two sides to come to an agreement on how the transition period will look, particularly due to the question of the Irish border. Our baseline scenario is an agreement on the terms of withdrawal will be reached to avoid a cliff-edge Brexit.

The risks to the UK economy of a hard, disruptive exit from the EU are high though – bringing a significant downside risk to the 2019 outlook. A breakdown of negotiations at this point leaves only enough time for the

UK to establish the most critical of international trade and regulatory treaties, meaning a substantial increase in tariffs and non-tariff barriers on UK trade in March 2019. The loss of confidence and blow to sterling would mitigate some of the negative impact on trade but would drive inflation to above 4%, straining consumer purchasing power. The Bank of England's monetary tightening would certainly reverse to fight the temporary spike in inflation and fiscal policy would loosen to help cushion the economy. In this negative scenario, we expect GDP growth in 2019 to slow markedly to 0.5%.

Advanced Asia: losing momentum as trade slows

Economic growth across the developed economies in the Asia-Pacific region is slowing. Being mostly highly open economies, the region enjoyed robust growth through the trade revival in 2017 but the slowdown in global trade on top of slower GDP growth in China is translating to weaker prospects in 2018 and 2019.

Table 2.3 Real GDP growth (%) - Advanced Asia

	2017	2018 f	2019 f
Australia	2.2	3.3	2.6
New Zealand	2.7	2.7	2.4
Japan	1.7	1.1	1.1
Hong Kong	3.8	3.6	2.4
Singapore	3.6	3.1	2.5
South Korea	3.1	2.6	2.5
Taiwan	2.9	2.5	2.1

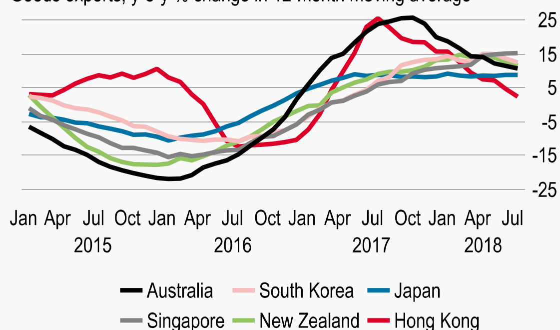
Sources: Oxford Economics, Atradius

The Japanese outlook is stable. With a less accommodating external environment and the fading out of fiscal stimulus, GDP growth is slowing back to the more characteristic rates of 1.0% in 2018 and 1.1% in 2019. This growth is underpinned by increasingly solid domestic demand. The unemployment rate is only 2.4% and wages are increasing more rapidly. Real wage growth increased in June to its highest rate in 21 years. At the same time, inflationary pressures remain elusive and the Bank of Japan remains committed to maintaining its expansionary policy for longer. In this environment, the outlook for private consumption is positive. In 2019, PM Abe will move forward with a consumption tax hike which will weigh on spending, but he has also committed additional government spending to offset this negative impact.

Export growth is slowing however due to softening global trade growth and the increasing risk of protectionism. In the face of trade headwinds, Japan continues to play a leading role in global multilateral trade. The CPTPP between Japan and 10 other Pacific countries is expected to come into effect by the end of 2019 and Japan has also expressed interest in the UK joining the trade agreement. The yen has depreciated over the past six months due to the widening interest rate differential with the US, but is forecast to appreciate over the forecast period as US growth peaks. Demand for Japanese capital goods remains resilient though and R&D spending for new technologies continues to increase. This, on top of the upcoming Tokyo Olympics in 2020, continue to drive up business investment to 4.7% in 2018 before easing slightly in line with lower trade in 2019.

2.5 Export momentum easing in most Advanced Asia

Goods exports, y-o-y % change in 12-month moving average



Sources: IMF DOTS, Atradius

As in Japan, the slowdown in global trade is causing export momentum to ease across the rest of the region, bringing down GDP growth expectations. Hong Kong in particular has seen a marked slowdown in export growth, with PMI readings reflecting lower Chinese demand and uncertainty surrounding the escalating US-China trade conflict. The slowdown in Australian exports is due to a high baseline from the recovery of coal and iron ore shipments, but the outlook there remains positive as vulnerability to trade tensions are limited. Trade tensions have also had limited impact on Singapore, South Korea, and New Zealand. Demand for Korean semiconductors and petrochemical products have continued to support export growth there as strong manufacturing activity in Singapore contributes to resilience there.

Overall, this region is the most vulnerable to the escalation of the Sino-American trade war. Some of the targeted sectors see a large share of their value added derived from non-Chinese multinationals operating in China, importing high value-added goods from these economies. With this highly-integrated Asian supply chain, there will certainly be spillovers into these small, trade-intensive economies like Hong Kong, Singapore, Korea, and Taiwan. As such, these markets are among the most vulnerable to downward growth revisions associated with trade uncertainty and tariffs. However, a trade war should not be destabilising for these countries as they benefit from high buffers to mitigate the negative effects.

3. Emerging economies – prospects and risks

Less favourable external environment highlights internal weaknesses

This year, several developments give reason to be concerned about the growth outlook for emerging market economies (EMEs). The escalating trade war between the US and China, monetary tightening by the Fed and the associated rising risk aversion towards emerging markets will leave their mark. A stronger dollar and higher interest rates in advanced economies may have an adverse impact on emerging markets with large, unhedged, foreign-currency debt and low buffers. These countries in particular have no room for policy mistakes as this will have a negative impact on investor sentiment (see box 4).

Despite these adverse developments, an emerging market crisis or even a severe growth slowdown across the regions described in this chapter is not what we expect. The consequences of the trade war and monetary tightening vary from country to country, in line with the differences between them.

Table 3.1 Real GDP growth (%) - emerging markets

	2017	2018 f	2019 f
Sub-Saharan Africa	2.3	2.7	3.5
Emerging Asia	6.0	6.0	5.6
Eastern Europe	3.1	3.0	2.4
Latin America	1.2	0.9	1.8
MENA	1.8	2.7	2.2
Emerging Markets	4.4	4.4	4.2

Sources: Oxford Economics, Atradius

Emerging Asia: the trade war doesn't spoil the party

For many years, the emerging economies in Asia have been the main growth engine of the world economy. China, India and the ASEAN countries have contributed strongly to global GDP growth. This will be the case this year as well. The trade war of course will have impact because China and the US are the main export destinations for many countries in the region, and their economies are part of global supply chains which can be hit by a weaker global economy. GDP growth, however, remains high because domestic demand stays strong and there is room for countervailing macro policies. For some countries, like Vietnam, the trade war also has some positive consequences. Regarding Fed tightening, we consider it unlikely that emerging markets in general, and also those in Asia, will face a financial crisis because of higher interest rates in the US and less risk appetite from financial markets. Global investors are aware that in the last decade sound macro policies have strengthened most of the economies. Larger buffers and flexible exchange rates are reason to expect that countries dependent on external financing can can cope with diminishing appetite for their bonds and equities. Thanks to good policy choices, the outlook for Emerging Asia is still quite rosy.

Table 3.2 Real GDP growth (%) - Emerging Asia

	2017	2018 f	2019 f
China	6.9	6.6	6.0
India	6.2	7.6	7.2
Emerging Asia	6.0	6.0	5.6

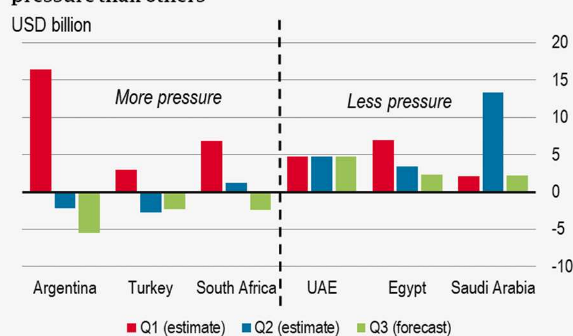
Sources: Oxford Economics, Atradius

Box 4: High capital outflows are a wake-up call for emerging markets

Emerging market economies (EMEs) globally fell out of favour during the early summer months. This was reflected in capital outflows and depreciating currencies, especially in countries with policy mistakes and political uncertainty. This is particularly true for Argentina and Turkey where the rout started. They have recently recovered somewhat, but both countries experienced severe currency crises, resulting in depreciation of over 50% for the peso and over 40% for the lira at their peaks. They dragged down other countries such as South Africa and Indonesia. But not without reason. Most of those countries are dealing with policy uncertainty and/or external and fiscal weaknesses that explain the market pullout. Overreliance on volatile portfolio investments in the financing of external deficits make countries such as Argentina, Turkey and South Africa particularly vulnerable to changes in market sentiment. Investors pulled USD 2 billion worth of bonds and shares out of Turkey in Q2. A painful contrast with the average quarterly USD 3 to 4 billion portfolio inflow (see left figure). In Argentina, capital outflows by residents exacerbated the effect of non-resident outflows. In South Africa portfolio inflows dropped due to increasing policy uncertainty making investors nervous. These sharp currency depreciations are a warning for the other vulnerable countries: they have no room for policy mistakes.

However, some EME countries escaped the turmoil. MENA countries, for instance, continued to receive substantial funding from abroad. Oil-exporters were shielded by rising oil prices and currency pegs to the dollar. Although oil importers ought to be more susceptible to capital flow reversals – given persistent twin deficits, high public debt levels and a rising oil import bill – also for them, exchange rate pressures remained surprisingly limited. Egypt's resilience can be explained by strong reform progress under the IMF programme. This shows that sound policies are rewarded.

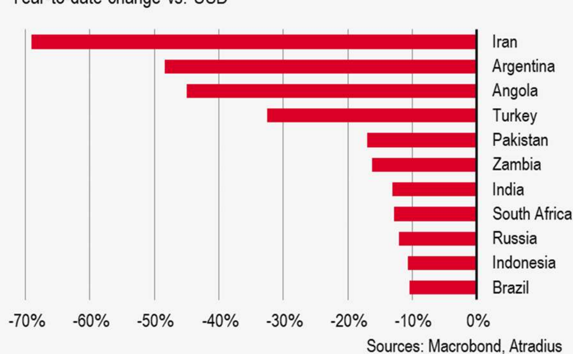
Non-resident portfolio flows of some EMEs under more pressure than others



Sources: IIF, Atradius

Top EME currency depreciations in 2018

Year-to-date change vs. USD



Sources: Macrobond, Atradius

China: trade war does not change the soft landing scenario, yet

Being the US's main target in the escalating trade war, it may be remarkable that the economic outlook for China has not deteriorated. For 2018 and 2019 we expect real GDP growth to reach 6.6% and 6.0% respectively, in both cases, 0.1 percentage point higher than our forecasts half a year ago. This still means a growth slowdown from last year's 6.9%, but the original soft landing scenario is intact. The first reason for this relatively positive forecast is that overall growth momentum held up so far this year. Both private consumption and real estate activity were resilient in the first half 2018 and corporate investments and government spending were slowing only moderately. Exports were helped by a weaker currency and continued strength of exports to the ASEAN countries and the US.

A second reason, which is important for the coming one and a half years, is that China's policymakers have started to ease their macro stance and have indicated they want to ease further if growth seems to weaken sharply. Low inflation gives room for monetary flexibility, for example by cutting reserve requirements for banks. On the budget front, a number of taxes for businesses and consumers will be reduced. Also, the central government has mandated local authorities to increase the issuance of special debt paper to finance new infrastructure projects, while regulators have made it easier for banks to hold debt paper from local governments.

The risks, however, are clearly to the downside. As explained in previous editions of the Economic Outlook, the authorities have to walk a fine line to deleverage the economy while avoiding a hard landing of the growth rate. It already was difficult to combine the agenda of reforms of state-owned enterprises, public finances and the financial system with a shift towards slower but higher-quality growth. Now that exports are hit by tariffs and countervailing policies are slowing the reduction of debt, the rope is getting narrower and shakier. Also for China, this is not a time for policy mistakes.

Next to this downside risk for the short term, China has to cope with increasing resistance to its role in the world economy. The EU and Japan share the US concerns about close ties between state and business in China, the

imposed sharing of technology by foreign companies investing in China and the absence of a level playing field in trade relations. Also the way China operates in the Belt and Road countries, connecting direct investments with voluminous lending practices, meets with growing resistance. Countries like Malaysia, Pakistan and the Maldives are re-evaluating the Chinese projects in their countries. If China does not make concessions regarding its specific economic model, the US, the EU and Japan will combine their efforts to change or even combat China's practices.

India: no reason to worry about the rupee

More than any other large economy, India remains on a high growth path. Real GDP growth this year is accelerating to 7.6%, recovering from last year's slowdown. Next year a still strong 7.2% is on the cards, mostly based on strong domestic demand, but also a small positive contribution from net exports due to coordinated fiscal policy to curb imports and a weaker rupee. Export growth this year is expected to accelerate to 8.2% (from 6.5% last year) before slowing to a still healthy 6.6% in 2019. Whereas India has much less exposure to the trade war than China, the worsened sentiment towards emerging markets took its toll on the rupee, like the currencies of other countries with 'twin deficits'. In India both the budget deficit and the current account deficit are relatively limited, but concerns about the wider health of the non-banking financial sector after a debt default of a large infrastructure finance company also played a role in the weakening of the rupee. The possibility of systemic fallout is low because the authorities took reassuring measures after the default. Capital outflow and currency depreciation may persist for some months, but the strong, relatively closed economy, contained inflation, sound reserve ratios and manageable external debt are reasons not to worry much about the negative consequences of a weakening rupee.

Southeast Asia: moderate impact on economic growth

For Southeast Asia the consequences of the trade war have a larger impact than for India. The five biggest countries in the region all have a relatively open economy and therefore – despite not being hit by import tariffs directly – will experience the headwinds coming from weaker global trade. Lower export growth this and next year, however, is not resulting in a sharp deterioration of growth in one of these countries. In fact, the export growth decline mostly is related to the growth slowdown of the Chinese economy, which was underway independently of the trade war.

In **Indonesia**, the largest economy in the region, export growth is slowing substantially this year. China is Indonesia's most important destination for goods exports and commodities accounting for over half of goods exports. Its shift towards a more consumption-oriented economy has a negative impact on Indonesian exports. On the positive side, however, exports account for just 22% of GDP, which is markedly lower than for Thailand (78%) and Malaysia (73%). This means that in Indonesia strong domestic demand will offset the drag from net exports. Election-related spending will support private consumption this year and early 2019 and business investments continue growing strongly. Monetary policy tightening, to cushion the economy from the impact of market turmoil, is expected to have just a minor impact on domestic demand. Though higher official interest rates will support the rupiah, further depreciation against the US dollar is likely. The currency is vulnerable to monetary tightening by the Fed and decreasing risk appetite of financial markets because foreign investors hold about 40% of Indonesian government bonds.

Table 3.3 Real GDP growth vs export growth (%) in SE Asia

	2017		2018		2019	
	GDP	Exports	GDP	Exports	GDP	Exports
Indonesia	5.1	9.1	5.1	5.5	5.1	5.3
Thailand	3.9	5.5	4.4	5	3.4	3.3
Malaysia	5.9	9.4	4.9	2.8	4.6	3.8
Philippines	6.7	19.5	6.4	8.1	6	6.4
Vietnam	6.8	20.3	6.7	18.2	6.3	9.6

Sources: Oxford Economics, Atradius

Thailand's economy is weathering the trade war reasonably well. Export growth will slow in the coming two years, but no dramatic shifts are expected as a result of the US-China trade war. Chinese import demand is cooling, but strong service exports in the form of tourism mitigate the impact on export growth. Real GDP will be supported by public infrastructure investments and private consumption, both stimulated by the military-controlled government to shore up its falling popularity. Low inflation and a large external surplus supporting the baht mean there is plenty of scope for continued accommodative monetary policy.

Malaysia's highly open economy is more susceptible to weaker external demand and, more specifically, weaker demand from China. Malaysia is one of the most vulnerable countries to the tariffs the US has imposed on Chinese exports. After rapid export growth in the first half of the year, high base effects will dampen growth in the second half. A normalisation in natural gas production will support exports to a certain extent, but due to the expected slowdown in world trade, export growth this and next year will be lower than in 2017. But also here, the domestic economy keeps GDP growth at a reasonable rate. Household spending remains buoyant this year given the boost to disposable income from fuel subsidies and the replacement of the goods and sales tax with a lower sales services tax. The impact of these measures however will decrease in the course of next year and rising domestic borrowing rates will lower household purchasing power. The postponement or suspension of long-term infrastructure projects will slow growth in

gross fixed investment. The Malaysian ringgit did relatively well this year, due to the current account surplus and the central bank's rule that 75% of export proceeds must be converted to the ringgit. The currency, however, still is vulnerable to worsening market sentiment because, like for Indonesia, a relatively large proportion of government debt is owned by foreigners.

Economic growth in the **Philippines** will slow gradually in the next two years, but this can be attributed only partially to exports losing momentum. After last year's strong performance, export volume will increase a still healthy 8%. Growth of imports of goods and services will stay high, resulting in a negative contribution of net exports to GDP growth for the fourth consecutive year. Like in neighbouring countries, domestic demand is bolstering GDP growth. Government expenditures will increase more than 10% because of an extensive infrastructure programme and private consumption stays strong because remittances supporting household incomes. Next to net exports, the main reason that GDP growth is slowing is that fixed investment is cooling from the double-digit rates posted over the past five years, due to tighter monetary policy and investor nervousness around president Duterte's controversial governing.

Amongst the five bigger economies in Southeast Asia, **Vietnam** will keep the highest growth rate this year and next, and relatively strong export growth will contribute to that. The US-China trade skirmishes will have a negative impact on exports to China, which is the number three export destination, after the US and the EU. But, different from the other Southeast Asian countries, Vietnam will benefit by gaining a larger market share at the expense of China, especially in the readymade garments (RMG) sector. Vietnam is the world's third-largest exporter of RMGs and exports about 50% of it to the US. But also in other sectors Vietnam is in a relatively good position, since almost 20% of GDP is reliant on the US as export destination, whereas this is 6% to 7% for Malaysia and Thailand and just 2% to 3% for the Philippines and Indonesia. If Chinese companies decide to move production to other countries (like they did when the EU and US imposed penalties on Chinese solar panels in 2012) Vietnam is in the best position to accommodate such a shift. Domestic demand will continue to grow healthily thanks to growing tourism and strong labour market conditions.

Latin America: another disappointing year

The gradual economic recovery in Latin America has been badly hit by a crisis of confidence in Argentina related to policy mistakes, and political uncertainty in Brazil, in the run up to its elections. As a result, 2018 will be another disappointing year for most of the region, with economic growth slowing instead of strengthening, and inflation rising. The region will continue to underperform well into 2019 with risks mainly on the downside. Next to disappointing developments in two of the region's largest economies, the near-term outlook for several economies in Central America has been dampened by a severe political crisis in Nicaragua. Combined with moderating financial support from the US, this provides room for China to expand its influence in the region (see Box 6). On a more positive note, some bright spots remain in Latin America, with growth prospects for some Andean economies remaining robust.

Table 3.4 Real GDP growth (%) - Latin America

	2017	2018 f	2019 f
Argentina	2.8	-2.8	-1.2
Brazil	1.0	1.1	2.3
Chile	1.6	4.1	2.9
Colombia	1.8	2.7	3.3
Mexico	2.3	2.0	2.2
Peru	2.5	3.9	3.8
Venezuela	-9.2	-9.9	-6.7
Latin America	1.2	0.9	1.8

Sources: Oxford Economics, Atradius

Brazil: swing to the right, many challenges ahead

Former army captain, Jair Bolsonaro, was elected as Brazil's new president in October on an anti-establishment, pro-gun and pro-privatisation platform. The outcome thus means a swing to the right in Latin America's largest economy. It has also put an end to a long period of political uncertainty, which in the course of this year started to negatively impact investor sentiment and economic growth. A ten-day truckers strike in May brought the country to a standstill, but was nevertheless supported by three-quarters of the population. This underlined growing frustration with the political establishment and high corruption and crime levels. This raised concerns among investors about the continuity of the more market-friendly agenda started under the outgoing Temer government, resulting in a sharp (25%) depreciation of the real. Mr Bolsonaro's win and his choice of former investment banker Paolo Guedes as economic advisor and future economy minister have reduced these concerns. Whether president-elect Bolsonaro will succeed in pushing through much-needed reforms remains to be seen, given the many challenges that he faces.

On the political front, he is confronted with a deeply fragmented, highly polarised and less experienced Congress, which will highly complicate policymaking. In the new Congress there will be 30 parties in the lower house and 21 in the Senate. The right and centre-right parties have a combined majority in the lower house of 60%, just enough for the three-fifths needed for constitutional amendments. But not all of these deputies will be aligned behind all of Mr Bolsonaro's policies, in part due to pervasive vested interests. Mr Bolsonaro is also a

highly controversial figure and many Brazilians are concerned about human rights, civil liberties and freedom of speech under his presidency. Whether he will be able to build and manage working coalitions to push through much-needed reforms, particularly those requiring constitutional majorities, is thus an open question.

On the economic front, the main challenges are putting government finances on a sustainable track, raising potential GDP growth rates, and keeping inflation in check. Brazil's fiscal deficit remains high at 7.5% of GDP last August from 7.8% of GDP in 2017, lifting the public-debt-to-GDP ratio to 77% from 74% in 2017. By far the most urgent fiscal measure will be the pension reform, put on hold by Mr Temer earlier this year. Otherwise, a landmark public spending cap set in 2016 will be exceeded and the public-debt-to-GDP ratio will continue to rise. Also, absent these reforms, inflation pressures will return. Inflation has surprised to the upside in the past months, largely due to energy prices and currency depreciation ahead of the elections. However, at 4.5% in September, consumer prices are still moving well within the 3-6% target range. Also, markets have responded positively to the Bolsonaro win, with the real appreciating by some 15% since mid-September. This will be positive for inflation going forward. Meanwhile, economic growth has stalled following the truckers' strike last May. Recent indicators suggest that the economy is slowly recovering on the back of improving business and consumer sentiment. But this recovery will remain weak, as unemployment remains high at 12% and as exports fall due to the economic problems in neighboring Argentina, its third largest export market. Amid heightened global headwinds, Brazil's economy is unlikely to pick up much steam in 2019. We expect real GDP to grow by 1.1% in 2018 and by 2.3% in 2019.

The fragility of public finances leaves no room for policy mistakes and is the main risk to the outlook. If the new government fails to deliver the pension reform and other needed fiscal measures in the first year – the window of opportunity is narrow given the high unpopularity of these measures – the outlook will quickly deteriorate. Investment sentiment will sour, the real will depreciate and current record low interest rates will have to be raised, which will be detrimental to economic growth. That said, the shock absorbing capacity of the Brazilian economy remains strong, underpinned by a flexible exchange rate, a sound banking sector, and very high official reserves.

Box 5 Goodbye NAFTA, hello USMCA

On September 30, after months of negotiations, Canada joined an agreement between Mexico and the US struck on August 27 that replaces the 24-year old free-trade agreement between the three countries. The agreement means that several highly controversial US proposals during the negotiations have been addressed keeping NAFTA alive under a new name, the United States-Mexico-Canada-Agreement (USMCA). The deal has eased short-term uncertainty over North American trade. But it does not end the tariffs that the US has imposed on steel and aluminium exports from Canada and Mexico. And longer-term uncertainties still linger on. The deal still needs to be ratified by the national parliaments. Most obstacles are to be expected in the US, especially if the Democrats win either house in the mid-term elections.

Key changes to the existing free trade arrangement are:

Tighter rules of origin for the auto sector. The share of component parts produced within USMCA is raised from 62.5% to 75%; by 2023, 40% of a car's components parts will have to be made by workers with wages at or above USD 16 per hour (otherwise a tariff of 2.5% will hold). At least 70% of steel and aluminium used in the carmaking process should come from within USMCA. As a consequence, car production in North America will most likely become more costly and auto supply chains will likely shorten.

Vehicle side letter. Canada and Mexico are shielded from global tariffs on cars that the US might impose on national security grounds by means of tariff-free quota well above current export levels.

Less strict sunset clause. USMCA will have a 16-year term, but it needs to be reviewed every six years.

Dispute settlement unchanged. Along with less strict sunset clause, this is more beneficial to investments than the measures originally proposed by the US, but still adds to longer term uncertainty.

Improved access to Canada's dairy market for the US industry to some 3.5%, as a concession for avoiding the five-year sunset clause and leaving the dispute settlement unchanged.

Trade with non-market economies. A three-month notice of the intent to pursue an FTA is required with a non-market economy and option to terminate USMCA. This essentially gives the US a veto over any trade deal between China and Canada resp. Mexico.

Mexico: reduced trade uncertainty, rising policy uncertainty

In Mexico, two of the main uncertainties that had negatively impacted its economy in the first half of this year, have been removed: early October, NAFTA renegotiations were finalised (see Box 5) and July 1st presidential elections were won by Andrés Manuel López Obrador, of the left-wing Morena party. He will govern with a strong political mandate, as his coalition also won a majority in both houses of Congress, and takes office on December 1st. Following the elections, sentiment significantly improved. The peso appreciated strongly and business and consumer sentiment are the strongest in

years, supporting the growth outlook of 2.0% in 2018 and 2.2% in 2019. Although inflation is still exceeding the target band of 2% to 4%, it is expected to re-enter the target range in the forecast period via the success of a lengthy monetary policy tightening cycle.

Fiscal developments in 2018 are broadly in line with the budget and the Fiscal Responsibility Law. When taking office in December, López Obrador will expand social programs and increase public investment to be paid by streamlining government and fighting corruption. To re-assure investors, a mostly technocrat cabinet has been proposed, which advocates commitment to fiscal discipline. Nevertheless, investors remain concerned that the López Obrador administration would pursue more expansionary fiscal policies, should the economy slow more than expected. These lingering concernsmight still dampen business and consumer confidence going forward and weigh negatively on economic growth in the forecast period. This was highlighted recently, when the peso lost over 7% in value vis a vis the USD since mid-October an ddampening all its gains earlier in the year. This resulted from rising concerns that the new administration might not respect contracts after president-elect Lopez Obrador announced to scrap Mexico City's new airport plans following a popular consultation and despite one-third already been constructed. Key to reassuring investors would be a fiscally responsible budget for 2019, clear energy-sector policies, and business friendly appointments for public sector posts, including the central bank. Four out of five board members will have to be reappointed in the next six years.

This means that Mexico will remain exposed to shifts in market sentiment, also given its open capital account and deep financial integration with the rest of the world. The country's shock absorbing capacity remains however strong, given its flexible exchange rate and strong liquidity, underpinned by an IMF-Flexible Credit Line.

Other Pacific Alliance: benefitting from higher commodity prices

In contrast to the larger countries in the region, economic growth in Chile, Colombia and Peru will be stronger than previously expected. All three remaining Pacific Alliance countries are benefitting from higher prices for oil (Colombia) and recently copper (Chile and Peru). Growth is expected to accelerate next year in Colombia to 3.3%, as (public) investment and consumption pick up, and to remain fairly stable in Peru (3.8%). Chile's economic growth will remain robust at 2.9%, but it will not repeat the exceptionally high levels seen earlier this year right after the new centre-right coalition took office in March. Business and consumer confidence levels are coming down from their post-election peaks and a somewhat weak labour market will also weigh down economic growth going forward. Inflation is low and within the target range in all three countries, reflecting strong macroeconomic policy frameworks.

In Colombia presidential elections were won by Iván Duque of the centre-right Centro Democrático, who took office last August. The peace process with the former FARC guerrillas faces hurdles but is advancing. Note that Colombia recently obtained OECD membership, making it the organisation's third Latin American member, next to Mexico and Chile. After leadership changes earlier this year in Chile and Peru, all three remaining Pacific Alliance countries are now governed by centre-right coalitions. These new administrations are moving forward with reforms to address fiscal issues (Chile and Colombia) or endemic corruption (Peru), which will be a challenging process in all three countries.

All three countries remain well-placed to deal with the challenges posed by the escalating trade dispute between the US and China, and the normalisation of US monetary policy, due to sound policy frameworks, flexible exchange

Box 6 China's rising influence in Latin America is adding to US frustration

China's investments in Latin America have risen threefold in the past years from USD 50 bn in 2012 to USD 150 bn in 2016 and 2017. Although this is still significantly below China's investments in other emerging regions (of some USD 200 – 300 bn), this might change.

China has in the past year extended its Belt and Road Initiative (BRI) to Latin America. Antigua and Barbuda, Bolivia, Costa Rica, Guyana, Panama and Trinidad and Tobago have al signed on to the BRI, which comes with Chinese investments and financing. For Panama, this was only possible after it had ended its diplomatic recognition of Taiwan and adopted a 'one China' policy'. This year, Dominican Republic and El Salvador also shifted away from Taiwan to China. China's much larger financing capability compared to Taiwan, high domestic investment needs and limited domestic financing availability for many Latin American countries supported this switch. For El Salvador, but also for other Central American countries, a scaling back in US funding and the ending of the 'temporary protection status' of immigrants into the US might also have played a role.

In this environment, it cannot be excluded that China will reach out to other countries in the region that still have ties with Taiwan, such as Belize, Haiti, Honduras, Guatemala and Nicaragua. Meanwhile, the US is getting more uneased about this development in its backyard and has recently voiced its displeasure at El Salvador's shift away from Taiwan. Concerns that China will start developing military facilities in Central America, after China reported investments to re-develop one of El Salvador's ports, probably fuel this unease.

rates and healthy buffers, which for Colombia are underpinned by a flexible credit line from the IMF.

Argentina: renewed recession adds to political challenges

Argentina's high vulnerability to US monetary policy normalisation and shifts in market sentiment has been evident in the past months. The country was hit by a full-blown crisis in confidence after several poorly communicated policy steps and concerns about its ability to cover its high financing needs. This crisis started mid-April and returned early August, despite an IMF programme that was put in place in June. The capital flight by both foreign and domestic investors has resulted in a sharp (some 50%) depreciation of the currency and a loss of official reserves. Attempts to stem the outflows by raising interest rates to a record high of 60% and tightening fiscal policy failed, as concerns about the high financing needs persisted. To address these concerns, the IMF has recently revised the program: disbursements will be accelerated to secure the government's financing needs through 2019, and the size of the three-year programme was increased from USD 50 bn to USD 57 bn.

The revised IMF programme diminishes the probability of default of the Argentine government over the forecast period. But the magnitude of the needed policy adjustment will deepen and lengthen the economic contraction that resulted from the crisis in confidence and the associated sharp currency depreciation and higher interest rates. Meanwhile, inflation and unemployment are rising and social unrest is growing. This reduces the chances of the re-election of President Macri in October 2019 and increases uncertainty about the continuation of the adjustment policy.

Central & Eastern Europe: losing momentum

Central & Eastern Europe's (CEE) outlook remains steady but is expected to slow down considerably in 2019. Turkey is set to slip into recession due to policy mistakes as Russia's nascent recovery grapples with sanctions. Romania's economy is cooling off from pro-cylical fiscal stimulus more quickly than expected in May. Strong domestic economies in other Central European countries are keeping up growth rates in 2018 but some countries like Poland and Hungary are facing some loss of momentum due to lower global trade and risk appetite for EME assets – a situation worsened by unorthodox policymaking.

Table 3.5 Real GDP growth (%) - Eastern Europe

	2017	2018 f	2019 f
Bulgaria	3.8	3.5	3.5
Czech Republic	4.5	3.0	2.7
Hungary	4.4	4.4	2.9
Poland	4.6	4.6	3.2
Romania	6.8	3.6	2.3
Russia	1.5	1.9	1.4
Slovakia	3.4	3.8	2.7
Turkey	7.3	3.2	-1.7
Eastern Europe	3.1	3.0	2.4

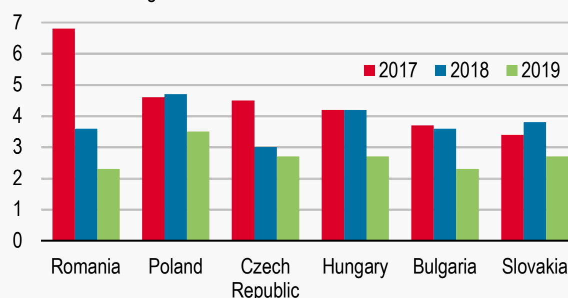
Sources: Oxford Economics, Atradius

Central Europe: unorthodox policymaking increasing risk for growth outlook

2017 was marked by steady upward revisions to GDP growth forecasts in Central Europe as the global upswing brought the trade-oriented economies of this region with it. In 2018, the outlook has remained stable – even slightly better than expected – for the region, highlighting the domestic strengths. Romania is the only outlier here as its economy has decelerated more quickly than expected but domestic demand continues to underpin more sustainable growth rates.

3.1 CEE GDP growth losing steam

Annual real GDP growth



Sources: Oxford Economics, Atradius

Domestic demand across Central Europe has remained strong this year, fuelled by tightening labour markets, high wage growth, cheap borrowing costs, and strong absorption of EU funding as projects under the 2014-2020 budget cycle get underway. Hungary saw Q2 GDP growth at a four-year high driven by household spending. However, in the Czech Republic for instance, the solid gains in domestic demand have been offset by lower demand from key eurozone trading partners.

Political tensions remain a downside risk for Central Europe's economic outlook, especially as the external environment becomes more challenging. Pro-cyclical fiscal policies stimulate growth in the short-run but can drive up inflation, eventually weighing on real income growth and private consumption. This is the case for Romania and to a lesser extent Hungary which also loosened fiscal policy ahead of elections. Populist governments in key markets have also driven political and

social tensions, institutional deterioration, and even international condemnation. In September, the European Parliament triggerd Article 7 against Hungary in response to perceived undermining of democracy and the rule of law, following the same ruling against Poland earlier this year. These tensions are expected to continue through next year, which may cause investor appetite to decrease despite the relative attractiveness of investment in the region relative to western Europe. Policy mistakes at this point can also have medium- to long-term consequences for these economies, most importantly in setting the next EU budget. In order to continue convergence to the rest of the EU, ongoing investment is necessary to keep up infrastructure and maintain competitveness through improved productivity. EU structural funding is critical for this, but in negotiations for the 2021-2027 budget, the EU is considering withholding some funding from countries with out of line opinions on democracy, the rule of law, and immigration – and as such shifting its structural funds from Eastern to Southern Europe.

Russia: growth supported by higher oil prices

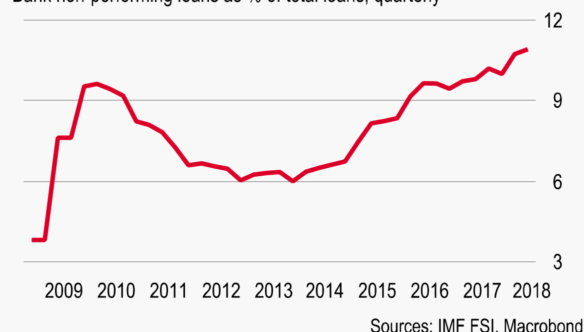
In Russia, the outlook is supported by the rise in oil prices this year, relatively low inflation and improved business and consumer confidence. GDP is forecast to expand 1.8% in 2018, driven mainly by private consumption and, to a lesser extent, fixed investment as one-off government infrastructure projects are completed. In 2019 a softening of GDP growth to 1.4% is expected on the back of the planned VAT increase from 18 to 20% and the gradual rise in inflation. A number of events could threaten the growth forecast, including geopolitical tensions and further tightening of international sanctions.

Consumption remains the main growth driver of the Russian economy, underpinned by real wage gains and increased borrowing. However, economic growth is likely to remain constrained amid the pressure from sanctions, which have exacerbated capital outflows and maintained a downward pressure on the ruble. The ruble depreciated by about 5% against the USD since May 2018, bringing an end to a period of ongoing disinflation that took place since late 2015. The inflation rate hit a low of 2.2% in February, but has been creeping up in recent months, to 3.4% in September. After a period of monetary loosening, the central bank has increased the main policy rate by 25 basis points to 7.5% in September as inflationary pressures build.

Credit growth in the banking sector is picking up this year due to stronger economic activity and relatively loose monetary conditions. The level of nonperforming loans, however, remains stubbornly high due to Western sanctions and the 2015-2016 recession. The government bailed out the systemically important Otkritie bank and the smaller B&N bank in 2017 in an attempt to prevent a banking crisis. While the situation in the banking sector is no longer a cause for immediate concern, sanctions restrict the ability of banks to borrow on international debt markets and continued support from the state remains necessary for some banks. Russia's central bank holds enough reserves to maintain stability in the banking sector.

3.2 NPLs increasing in Russia

Bank non-performing loans as % of total loans, quarterly



Sources: IMF FSI, Macrobond

Private consumption is expected to grow 3.1% in 2018, slightly lower than last year (3.3%). The persistence of consumption-driven growth in 2018 is underpinned by the low unemployment rate and positive real wage growth. In 2018, fixed investment is expected to grow 1.2%, a sharp decline from 4.3% last year. Investment is restrained by the uncertainty over US sanctions, corruption and a weak institutional backdrop.

The government budget deficit narrowed sharply in 2017, to 1.5% of GDP, on the back of higher oil prices and expenditure restraint. The government is likely to continue to pursue a conservative fiscal policy over the next few years. In 2018 we forecast a budget surplus of 0.3%. Russia has a fiscal rule in place that demands oil revenues above the conservative base price of USD 40 per barrel to be transferred to the National Wealth Fund. While some of these funds are expected to be withdrawn from the NWF to fulfill Putin's social spending promises, we do expect the NWF's asset position to strengthen at the current oil price of USD 80 per barrel.

In the long term, the lack of investment opportunities and existing and additional Western sanctions restrain the growth potential of the Russian economy. The alleged attack by Russia on former Russian intelligence officer Skripal and his daughter led to additional sanctions and the expulsion of Russian diplomats from Western countries. This was the second round of major sanctions, following sanctions earlier this year by US against Russia's alleged meddling in the 2016 US election. A group of US senators is preparing another sanction bill, although the scope of these sanctions remains uncertain. With Vladimir Putin being reelected for a fourth term, we expect broad continuity of his policy agenda, including ongoing confrontation with the West. The likelihood of sanctions being removed anytime soon is small. Domestically Putin's popularity has been falling since June, when the government announced a rise in the

pension age, but thus far this does not pose a serious threat to political stability.

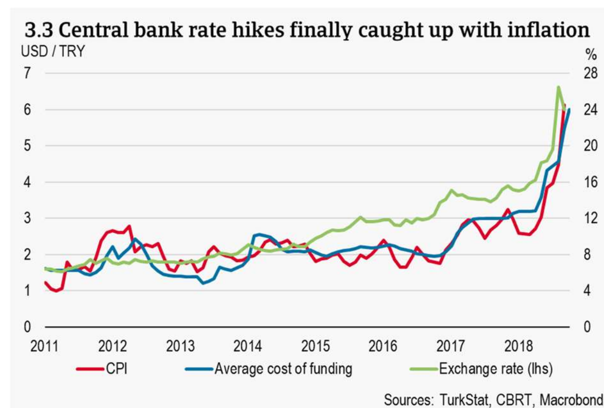
Turkey's economy pays price for political transition

Recent policy mistakes have overheated the Turkish economy, finally causing it to boil over. Turkish policymakers used to walk the tightrope of the various imbalances in Turkey's economic structure. The saving rate is low in relation to its investment rate, for instance, and investments are excessively made in less productive sectors such as real estate. Meanwhile, current account deficits have been persistently high and Turkish corporates have saddled themselves with dollar debt, which culminated into a huge USD 200 billion (one-third of GDP) annual external financing requirement and constant pressure on the lira exchange rate. Turkey's solid public finances and healthy banking sector were usually enough to stem lingering threats of capital outflow. However, Turkey's controversial political transition to the current presidential system with fewer checks and balances has shaken investors' confidence. Now a hard landing is underway.

While the lira had been under pressure for much longer – also due to the normalisation of US monetary policy – the real crash came in August. The escalation of a conflict with the US about the release of an American pastor and imposition of American sanctions on Turkey proved to be the final straw. But before that, a series of policy mistakes increased economic instability. For starters, while 'too loose' monetary and fiscal policy may have helped to tip the scale in the President's favour in both the July snap election and the earlier (2017) constitutional referendum, it also caused serious overheating of the economy. Subsequently the Turkish central bank was too lax in putting out the fire as inflation surged to almost 18% in August from around 10% at the beginning of the year. A crucial mistake was that it paused rate hikes in the first monetary policy meeting after the elections. This fuelled doubts about central bank independence in the new political system, especially as the president has already signalled he would take more control of monetary policy. This intention was affirmed by his decisions to appoint his son-in-law to lead the new economy team and to assign himself the right to appoint the central bank governor and his deputies. In addition, markets had reason to suspect that the Turkish government would continue to fuel the overheated economy via tax breaks and investment programmes in the run-up to the next (this time local) elections in 2019.

Fortunately it seems that the government has come to its senses and realises the danger a freefall of the currency poses to the highly indebted corporate sector. The exchange rate stabilised after the central bank lifted the policy rate by a further 625 bps to 24% in September. However, more rate hikes would be needed as the September inflation figure came in at 24.5%, implying a still negative real interest rate (see figure). In August the central bank already took some ancillary measures to shore up dollar liquidity and prevent currency speculation such as cutting foreign currency reserve requirements and limiting bank's foreign currency swap transactions. Turkey also obtained international support from Qatar by means of a USD 3 billion swap agreement. Moreover, a new economic programme builds on this by promising fiscal consolidation with budget deficits kept below 2% in the coming years, suggesting an end to the coordination problems between fiscal and monetary policy.

3.3 Central bank rate hikes finally caught up with inflation



Sources: TurkStat, CBRT, Macrobond

Nonetheless, this belated response cannot prevent a sharp slowdown of economic growth. Rising domestic interest rates and high inflation will severely constrain domestic demand. Real GDP growth is expected to slow from 7.3% in 2017 to 3.0% in 2018 and for 2019 a recession is in sight with -1.6% growth. Despite symptoms of a credit crunch, Turkey is not (yet) headed for a banking crisis. The banking sector has been caught in the middle between a highly leveraged corporate sector with currency mismatches and pro-cyclical government policy, but banks are still well capitalized and the ratio of non-performing loans is low (2.9% in August) and only gradually increasing. Banks are actually helping corporates restructure their foreign currency debt as they got more freedom from the government to grant forbearance. The biggest risk is the refinancing of banks' own substantial short-term foreign funding of about USD 102 bn. The news that one of the larger Turkish banks managed to secure an almost USD 1 bn syndicated loan is reassuring and confirms that banks still have access to foreign funding, albeit at a higher premium.

Even with all policymaking moving in the right direction, Turkey has a long way to go to regain market confidence. Some of Turkey's desperate attempts at micro-managing the economy could potentially backfire and spook foreign investors again. Examples of recent controversial market interventions by Turkey are: the requirement for exporters to convert a large share of their foreign currency revenues back to lira, a curtailment of the use of foreign currency in domestic transactions and the policing

of supermarket price increases. Turkish authorities are wise to keep outright capital controls off the table. Such a double-edged sword would be a huge risk to the banking sector that heavily relies on foreign capital inflows.

MENA: shielded from EME turmoil by rising oil price

Unlike some other emerging markets the MENA region has largely escaped capital outflow pressures over the summer (see box 4). Unfortunately, the main reason for this resilience is not that they have seized the oil crisis as an opportunity to implement the necessary fiscal and other structural reforms and emerged reborn.

Table 3.6 Real GDP growth (%) - MENA

	2017	2018 f	2019 f
Egypt	4.2	5.3	5.4
Morocco	4.1	3.2	3.9
Qatar	1.6	2.7	3.3
Saudi Arabia	-0.8	2.0	2.9
Tunisia	2.0	2.1	2.2
United Arab Emirates	0.8	2.0	3.1
MENA	1.8	2.7	2.2

Sources: Oxford Economics, Atradius

It is the oil price recovery that has relieved immediate funding pressures for oil exporters. Current accounts of oil exporters continue to improve amid higher oil income. This enables them to fall back on their long-standing US dollar pegs that have always served them well. Although the past episode of low oil prices has eaten into financial buffers and required substantial external borrowing, most oil exporters still have relatively low debt levels and ample international reserves in support of their pegs. Moreover, to be ahead of higher interest rates and potential market turmoil various oil exporters including Saudi Arabia, Oman and Qatar, had the foresight to already issue the bulk of sovereign bonds early in the year. The latest successful USD 2 billion Sukuk bond issue of Saudi Arabia mid-September is a sign that access to the capital market has not been impaired since the turmoil.

Pressure on currencies of oil importers also remained limited despite slow reform progress and a higher oil import bill. Tunisia's currency depreciated the most by more than 10% year-to-date. Egypt is the positive exception in terms of reforms, while in debt-laden Lebanon policymaking is on hold due to another political deadlock. The oil price recovery may actually not hurt oil importers that much if higher oil prices are expected to be longer-lasting, because then they could benefit from financial spillovers including investments from their oil-exporting neighbours. Meanwhile, the higher import bill is at least partly offset by solid export growth and higher inflows from a rebound in tourism and remittances against the background of an improved security situation and economic strength in Europe.

While budgetary reforms have improved the fiscal position to some extent, consolidation has so far been insufficient to prepare MENA for another bout of low oil prices. Only Kuwait, the UAE and Qatar have returned to fiscal surpluses or are about to, while Algeria and Bahrain still record huge budget deficits of around 10% of GDP. Accordingly, the IMF's fiscal break-even oil price projections for 2019 vary from around USD 45-65 per barrel for those three outperformers to above USD 100 p/b for Bahrain and Algeria. Saudi Arabia's fiscal break-even oil price in 2018 and 2019 will be around the current oil price of USD 80 per barrel. Cuts in fuel subsidies and capital expenditure and boosts in non-oil revenues have been steps in the right direction. However, our suspicion - raised in the previous Outlook - that fiscal reforms will lose momentum in line with the reduced sense of urgency has been allayed. So far the Gulf Cooperation Council (GCC)-wide planned 5% value-added tax has only been introduced in two (Saudi Arabia and UAE) of the six GCC countries, while only Bahrain seems on track to follow any time soon. Politically sensitive cuts in the bloated public sector wage bills are less and less likely to occur. Saudi Arabia's further postponement (possibly to 2021) of the planned IPO of a 5% stake in national oil company ARAMCO is a crack in its commitment to diversify future revenues away from oil.

Economic growth is accelerating on the back of the oil price and production recovery. Real GDP growth for the MENA region is projected to be 2.7% in 2018 up from 1.8% in 2017. Growth rebounds in oil exporters Oman, Saudi Arabia and Kuwait to positive rates between 2% and 4% in 2018 and 2019 are particularly impressive, coming from respectively near to deep recessions in 2017. Egypt's oil importing economy will grow the fastest though at 5.3% in 2018 and 5.4% in 2019. Qatar's economy has adjusted well to the continuing boycott of the country by some of its Gulf neighbours and could expect to expand by 3% on average over the forecast period. Iran is less fortunate as its effort to reintegrate into the world economy has been thwarted by the unilateral reimposition of nuclear sanctions by the US. Large multinational companies have already reconsidered their investments in Iran. Despite attempts by other signatories to save the nuclear deal, the Iranian economy will enter into a recession of almost 4% in 2019.

Potentially the biggest policy mistake from a long-term perspective that MENA authorities could make is to backtrack on their support for economic diversification and fully re-engage in hydrocarbon investments. Although non-oil growth is picking up amid spillover effects from higher oil revenues, the diversification process is getting hit by a double whammy: higher oil prices and higher policy interest rates. Not only do

investments become more expensive to fund given tighter global and domestic financial conditions, higher oil prices make investments in the hydrocarbon industry relatively more attractive than in non-oil projects. This is especially the case since OPEC is starting to relax its production quota and Iran's declining oil exports (already down by more than a million barrels per day from its peak) leave a void in global oil supply to fill. Moreover, OPEC spare capacity is historically low and oil exporters need to overcome years of underinvestment in the hydrocarbon sector to be able to step up production significantly. So while monetary policy alignment with the US and higher oil prices help MENA's dollar pegging countries avert capital outflows, it weighs on private sector credit growth and hampers economic diversification away from oil.

Sub-Saharan Africa: despite higher commodity prices, challenges ahead

The weak economic performance of the second largest economy in Sub-Saharan Africa (SSA), South Africa, is keeping average economic growth in Africa moderate. Average growth for this year is expected to reach 2.7%, slightly higher than last year, due to the higher commodity prices. Higher oil prices support economic growth in the oil-exporting countries Nigeria and Angola. Nevertheless growth is still moderate in these countries. Angola is even turning to the IMF to ensure financing its large external financing requirement and to preserve debt sustainability. Across the region, governments have increased their investments in infrastructure. Electricity shortages and lack of good roads, railways and ports are constraining the potential of many African countries. To finance these investments, and not to forget their fiscal deficits, many of them (Ghana, Kenya) increasingly borrowed from the international capital markets. Economic growth in Kenya is accelerating this year to 5.4% from 4.9% in 2017 due to high public investments. Ghana's economic growth has been high for several years now due to increasing oil production and public investments. Growth is expected to gradually decline to 6.7% this year and 5.9% next year. Fiscal consolidation is on track in Ghana, supported by an IMF programme. Due to the aforementioned public investments, Kenya's external (mostly public) debt has risen in the last few years. The high share of commercial debt makes the country vulnerable to external shocks. Though its external position remains strong and foreign exchange reserves are at a comfortable level, it therefore is unfavourable that Kenya decided to not renew a USD 1.5 bn IMF Standby Facility, which was agreed in 2016 to help cushion the economy in case of unforeseen external shocks that could upset the balance of payments.

Despite higher economic growth in the region news is increasingly disturbing from the Sub-Saharan region. Many countries face challenges financing their deficits and maintaining debt sustainability, especially in the current less supportive global environment. Despite higher copper prices Zambia is struggling to finance its budget deficit as investors and donors are hesitant to provide loans due to the already high public debt and debt transparency issues. Countries like Congo Brazzaville and Mozambique are in default and others have already turned to the IMF for financial support and to preserve debt sustainability (Gabon, Cameroon).

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

	2017	2018 f	2019 f
Ghana	8.5	6.7	5.9
Kenya	4.9	5.4	5.6
Nigeria	0.8	1.8	2.8
South Africa	1.3	0.7	2.1
Sub-Saharan Africa	2.3	2.7	3.5

Sources: Oxford Economics, Atradius

South Africa: Weak economy and policy uncertainty hurt rand

South Africa entered a technical recession in the first half of 2018. Almost all sectors contributed to this downturn, especially the agriculture sector. Severe drought conditions in the Western Cape and good harvests in 2017 resulted in a sharp decline in agriculture production. Due to the contraction in the first half year economic growth will be only 0.7% this year, notably lower than 1.3% in 2017. The weak economy, policy uncertainty and the overall negative sentiment towards emerging markets contributed to the sharp depreciation of the rand this year. The rand is one of the currencies most vulnerable to US monetary tightening and increasing protectionism. Historically the rand is volatile due to its vulnerability to changes in investor sentiment because of its dependency on capital inflows for financing its current account deficit. Initially the rand benefitted from the positive sentiment towards South Africa when Ramaphosa replaced Zuma as president in February this year. But this optimism might turn premature. President Ramaphosa, known as business friendly, won the ANC leadership only with a small majority and needs to unite the ANC before the general elections in 2019. It is uncertain if Ramaphosa will receive enough support to combat corruption, improve governance and reduce policy uncertainty. Policy uncertainty in particular is resulting in a negative sentiment and is impeding investments into South Africa. This has been aggravated by President Ramaphosa's recent support for "land expropriation without compensation". Ramaphosa reassured investors that this proposal would not have a negative impact on agriculture

production and the economy. Despite this disturbing news we do not expect South Africa to follow the Zimbabwe route.

After the elections the political situation will stabilise and economic reforms are expected to be implemented, supporting the economy. Due to the weak economy in the first half year government revenues might turn lower and the budget deficit higher than previous expectations. Large contingent liabilities by state-owned companies are of even greater concern. Government guarantees to state companies are approximately USD 32 bn, or 9% of GDP. If the fiscal consolidation process goes off track or public debt turns out much higher, concerns of another downgrade of the sovereign credit rating will increase. This will make external borrowing more expensive. Currently Moody’s is the only one of the three rating agencies that still rates South Africa investment grade.

Nigeria: higher oil prices support economic recovery

Economic growth in the largest economy in SSA, Nigeria, will increase this year to 1.8% from 0.8% in 2017. Economic growth is however still moderate this year. Activity in the non-oil sector is being constrained by high inflation, high interest rates, difficult access to credit and forex shortages. Although the higher oil price resulted in an increase in the foreign reserves, easing the dollar shortages somewhat; multiple exchange rates are still in place. In Nigeria support is also coming from high government spending. The government is planning to increase investments in the much needed infrastructure improvements. This spending will be financed by borrowing, increasing the public debt. This year the government issued eurobonds for USD 2.5 bn. Although Nigeria has a low public debt, only 17% of GDP, revenues are extremely low while a large part of its revenues is assigned to interest payments, making the government finances weak and vulnerable to shocks.

4. Implications for the insolvency environment

Insolvency environment improvement nearly comes to an end in 2019

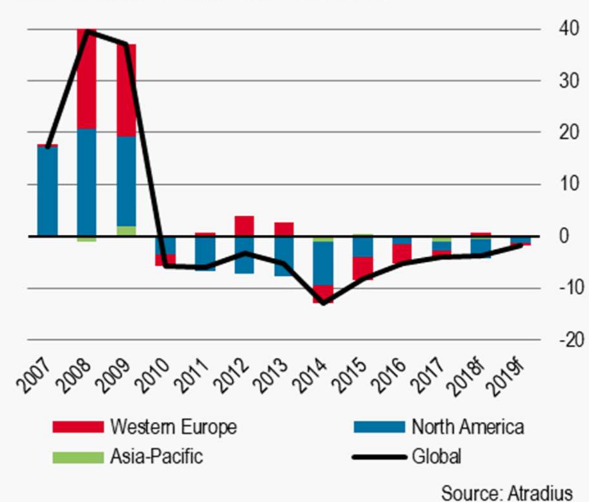
The global economy is still in a sweet spot in 2018 but the growth outlook is notably lower for 2019 as trade will be impacted by tariffs and monetary tightening continues. Our insolvency outlook reflects this. For 2018 we project a 4% decrease in global insolvencies, a forecast supported by incoming year-to-date data. As growth slows in 2019, the improvement in insolvencies nearly comes to an end (-1%).

Given that we face an unfolding trade war, our forecasts contains an unusual degree of uncertainty. In this situation we see sectors that benefit (such as US steel for example) and sectors that lose (manufacturing sectors that heavily rely on steel inputs). While the impact on GDP growth of this sectoral switch may be negligible, the number of insolvencies will go up. As our insolvency models rely on macro rather than sectoral data, we have attempted to incorporate this effect by using expert judgement.

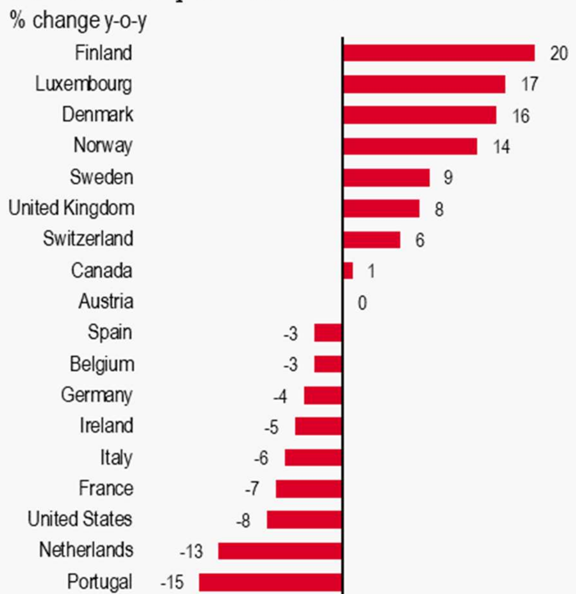
Other than this uncertainty, the global insolvencies outlook is subject to the risk of intensification of the trade war as well as an unguided Fed monetary policy move. Trade war intensification will depress GDP growth and reinforce the effect of the sectoral switch we described above, pushing up insolvencies. Surprised financial markets can cause investments to decline, choke off access to financing, hamper GDP growth and consequently increase the number of insolvencies as well.

4.1 Insolvencies predicted to stabilise in 2019

Global insolvency growth, regional contributions



Source: Atradius



Europe: increasing insolvencies in Nordics and the UK

Economic strength across advanced markets has been one of the key drivers of the broad-based global upswing since 2017. The robust growth in the eurozone has continued this year, albeit at a slightly slower pace. Moreover, we expect further cooling off in the eurozone in 2019. The insolvency outlook for most western European countries however is moderately positive. Nevertheless, possible risks to financial stability in the eurozone are an escalated trade war, a hard Brexit, and Italian policy defying EU-budget rules.

Growth in **Germany** is cooling from 2.5% in 2017 to 1.8% and 1.6% in 2018 and 2019 respectively. In particular in 2019 this has an expected upward effect on the insolvency forecast. The first half of this year showed a slight decrease in insolvencies, bringing us to a forecast for this year of -4%. This decrease will come to a halt in 2019 as lower growth weighs in.

GDP growth in the **Netherlands** remains robust in 2018 (2.7%). Domestic demand remains its main growth driver. However, in 2019 external demand is expected to soften and investment growth to decrease. GDP growth is expected to slow to 1.7%. After numerous years of spectacular decreases in insolvencies, this year again shows a sharp decrease (-13%). In line with the expected growth slowing in 2019, our forecast is stabilisation at the current very low level. However, the UK is an important trade partner. The potential negative effect of a no-deal hard Brexit is not taken into account in this insolvency outlook.

In **France**, for 2019 we expect the macroeconomic stance to improve, except for a small interest rate rise. The number of insolvencies is therefore forecast to decrease 3% next year, following a decrease of 7% this year.

As for the Nordics, all four countries have been showing a remarkable increase in insolvencies (see Figure 4.2). Remarkable, because most of their growth figures are good and should have positive effects on this year's insolvency outlook. Backlogging of insolvencies can provide at least a part of the explanation.

In **Denmark**, the national statistics bureau has been backlogging insolvency data for a number of years. Therefore, its insolvency statistics are highly volatile and difficult to predict. The first three quarters in 2018 show an increase in insolvencies, leading to our forecast of 16% insolvency growth this year. For 2019, we forecast -3%, based on solid GDP growth.

GDP growth has been picking up in **Finland** this year, driven by private consumption from pent-up demand, declining unemployment, still low inflation, and very low interest rates. After five consecutive years of decreasing insolvencies, the number of insolvencies were at their lowest point in ten years in 2017. The first three quarters of this year however indicate an increase to the 2015 level (20%). For next year, both economic activity is expected to cool off. Still, in light of this year's strong increase in insolvencies, we expect the level of insolvencies to decrease only slightly (-2%).

GDP growth in **Sweden** has also accelerated, supported by loose monetary policy and strong domestic demand. However, the number of insolvencies are expected to increase 9% this year, and decrease 5% next year.

In **Norway** the first half of this year showed a strong increase in insolvencies, resulting in an expected 14% increase in insolvencies for the full year 2018. Next year, the number of insolvencies is expected to stabilize, due to robust GDP growth (1.9%).

Economic growth in **Spain** is strong this year (2.7%) and expected to continue strong next year (2.3%), although not as strong as in preceding years. This good but declining growth has resulted in a slow recovery from its high level of insolvencies this year (-3%), next year insolvencies are expected to stabilise. The recovery of the **Portuguese** economy is impacting this year's insolvency level very positively (-15%). Further, but slowing, improvement is to be expected next year (-5%). For **Italy**, the year to date figures indicate a 6% decline in insolvencies for 2018. The slightly worsening economic environment has led to a forecast of moderate growth in insolvencies next year (4%), but the snag is in political uncertainty. The latter is high and can lead to confidence indicators weakening, lower investments and consumption, which could result in a worsening of the insolvency outlook.

Insolvencies in the **United Kingdom** are increasing due to a difficult start to the year in the construction sector and weakening purchasing power hurting the retail trade sector particularly. Uncertainty surrounding Brexit is increasing and weighing on investment. This uncertainty should increase in 2019, as other headwinds come in the form of higher interest rates and slowing industrial output. Therefore, we expect the number of insolvencies to increase 8% this year and 4% next year. A further worsening of the 2019 outlook could occur if there is a no-deal hard Brexit. Businesses in the UK are by far the most vulnerable in Europe to such a disruption – the projected 1 percentage point such an event would shave off of GDP growth could translate into a nearly five percentage point increase in insolvencies. **Ireland** is the most exposed eurozone country to the UK and as such is most vulnerable to a disorderly Brexit. Under the baseline scenario, we forecast no change in insolvencies next year as GDP growth slows. Due to the close economic ties though, our modelling suggests insolvencies could tick up 2% in 2019 should there be a cliff edge Brexit.

North America: strong performance USA in 2018

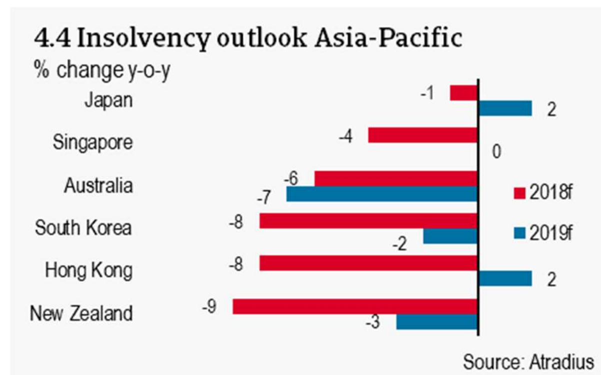
Economic growth in the **United States** is strong in 2018 (2.9%), thanks to the current fiscal stimulus and continuing decline in unemployment. Business risks continue to rise in the US however in the form of more rapid monetary tightening, USD strengthening and general trade policy uncertainty. Therefore, the economy is expected cool off somewhat in 2019. As such, we forecast a decrease in insolvencies of 2% in 2019 following the expected 8% decrease this year.

Economic growth in **Canada** has been catching up in 2017 (3%) driven primarily by stronger-than-expected private consumption growth. This year growth is expected to ease slightly to 2%. Private consumption will likely ease as stronger growth will increase inflationary pressures and interest rates. The latter weigh in on the effect on insolvencies of GDP growth. The number of insolvencies are therefore expected to be stable this and next year.

Developed Asia-Pacific: decreasing insolvencies coming to a halt next year

Economic growth in **Australia** is forecast to be robust this year (3.3%) and next year (2.6%), due to businesses and investment being supported by higher prices for raw material exports (coal and iron ore especially). The performance in insolvencies is expected to be strong. The insolvency figures of the first half of this year lead to an expected 6% decrease this year. Also, for next year we forecast a decrease in insolvencies of 7%.

GDP growth in **New Zealand** is to stay solid. Tourism is booming, supported by cheaper flights and more visitors from new Asian markets. The insolvency development for the first nine months shows a significant decrease, supporting a 9% decline in the forecast for the full year. For next year, we expect another 3% decline on te back of slid GDP growth.



For **Japan**, downside risks to business should increase in 2019 due to the slowdown of global trade. Considering the level of insolvencies being historically low, at 60% of 2007 levels, stagnant economic growth, and year-to-date insolvency developments, we expect a moderating decline in insolvencies of 1% this year, and a slight increase next year (2%).

The outlook for 2018 for **South Korea** is revised down slightly to 2.6% GDP growth, but domestic activity continues to be supported by government spending and business investment. Monetary policy is accommodative and inflation remains moderate. For 2018, the forecast is a decrease in insolvencies of 8%, and stabilization in 2019 (-2%) due to the expected easing of economic growth.

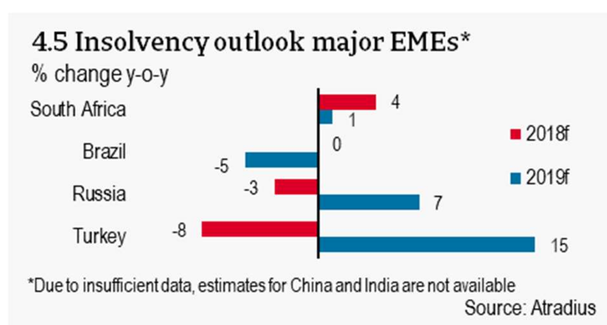
GDP growth in **Hong Kong** will slow in 2018 from a multi-year high of 3.8% in 2017, mainly because of the

slowdown in the Chinese economy and trade barriers in the United States that will negatively impact exports. On the other hand, private consumption will stay strong because of increasing purchasing power (rising wages and the appreciating Hong Kong dollar). Against this background insolvencies are expected to decline 8% in 2018. For 2019, with the economic slowdown and tighter credit conditions, we expect a slight rise (2%).

Overall, economic growth in **Singapore** is slowing from its strong pace last year, primarily due to slowing import demand in China. Economic growth is still pretty robust and inflation is moderate, but inflation should pick up in 2019 as the economy slows further. As such, insolvencies are expected to increase this year (4%) and stabilize next year.

BRICS markets: worsening insolvency conditions

Economic growth in **Russia** is slightly higher this year (1,8%), helped by a higher oil price, but hampered by current sanctions. GDP growth is expected to slow to 1.4% in 2019 following a VAT increase. We expect a slight decrease in insolvencies this year (-3%), followed by an increase in 2019 of 7% as the most recent round of US sanctions is expected to weigh in.



With **China's** economy slowing down, we expect the number of insolvencies to increase this and next year. The rebalancing of the Chinese economy moving away from a manufacturing towards a more service based economy is an ongoing factor. Moreover, the excessive debt and speculative investments are meant to be reduced by targeted tightening measures and tougher rules in the financial sector. Main risks to the Chinese economy, and our insolvencies forecaset, is the worsening of the current trade war with the US, especially for the specific sectors directly involved.

This year, strong domestic demand is the main contributor to the acceleration of economic growth in **India**. With private consumption picking up this year, we expect a decrease in insolvencies in 2018. In 2019, the effects of import tariffs on steel and aluminium are expected to be moderate at worst and will not prevent the positive trend in insolvencies to continue.

Brazil's economic recovery was slower than expected due to a truckers strike and high political uncertainty. Now that Brazil has chosen for a more business-friendly presidential candidate, we expect a very slow acceleration of GDP growth. We forecast therefore no change in the number of insolvencies in 2018 and a modest decrease of 5% in 2019.

For 2018 a reduction in insolvencies could be expected in **Turkey**, given the lagged effect of the exceptionally strong economic performance in 2017. Real GDP growth will slow substantially in the second half of 2018, accompanied by very high inflation and interest rates. The foreign currency debt laden corporate sector is also hit hard by the 40% currency depreciation. Together with the economic slowdown, this leads to an estimated 15% increase in insolvencies in 2019.

The economy of **South Africa** has entered a technical recession this year. This downturn will lead to an increase in the number of insolvencies this year (forecast 4%), and stabilisation next year (forecast 1%).

Appendix: forecast tables

Table A1: Macroeconomic headline figures - developed markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Australia	2.2	3.3	2.6	1.9	2.1	2.2	-1.7	-0.4	-0.7	-2.6	-2.5	-2.2	3.5	5.1	6.1
Austria	2.7	2.8	2.0	2.1	2.0	1.6	-0.8	-0.3	-0.2	2.0	2.8	1.8	4.8	4.3	3.1
Belgium	1.7	1.4	1.5	2.1	1.9	2.0	-1.1	-1.1	-1.2	0.7	-1.0	0.0	4.9	3.9	4.2
Canada	3.0	2.1	1.7	1.6	2.1	2.0	0.2	0.1	-0.3	-2.9	-3.2	-3.3	1.1	2.9	1.6
Denmark	2.3	1.5	2.2	1.1	1.1	1.2	1.0	-0.5	-0.4	7.5	4.2	4.7	4.4	0.5	2.5
Finland	2.8	2.7	1.8	0.8	1.2	1.7	-0.7	-0.7	-0.4	-0.7	-1.2	0.0	7.5	2.9	3.1
France	2.3	1.6	1.7	1.0	1.9	1.5	-2.7	-2.5	-2.8	-0.6	-0.7	-0.5	4.7	3.2	3.0
Germany	2.5	1.8	1.6	1.7	1.9	1.8	1.0	2.3	1.1	7.9	7.9	7.0	5.3	2.8	3.6
Greece	1.3	2.0	1.8	1.1	0.8	0.0	0.9	1.1	0.4	-1.0	-0.8	0.5	6.9	8.2	6.5
Hong Kong	3.8	3.6	2.4	1.5	2.3	2.0	1.5	1.2	0.4	4.3	2.9	1.8	5.5	4.2	2.3
Ireland	7.3	6.1	2.5	0.3	0.8	1.8	-0.3	-0.3	0.0	8.3	7.5	4.0	7.7	5.4	2.5
Italy	1.6	1.1	0.9	1.2	1.4	1.4	-2.4	-1.8	-2.4	2.8	2.6	2.8	6.0	0.4	3.1
Japan	1.7	1.1	1.1	0.5	1.1	1.0	-3.5	-3.5	-3.5	4.0	3.5	3.1	6.7	3.4	2.4
Luxembourg	2.3	3.6	3.3	2.1	1.5	1.7	1.5	1.1	0.6	5.0	6.2	6.1	3.9	3.5	3.4
Netherlands	3.0	2.8	1.7	1.4	1.7	1.8	1.3	1.9	1.4	10.5	9.9	9.2	5.6	3.0	3.1
New Zealand	2.7	2.7	2.4	1.9	1.5	2.2	1.1	0.9	0.7	-2.9	-3.8	-3.4	1.8	3.6	2.8
Norway	2.4	1.6	1.9	1.9	2.7	2.5	6.9	7.0	6.5	5.7	7.3	6.1	0.1	0.2	2.4
Portugal	2.8	2.1	1.7	1.4	1.2	1.5	-3.0	-1.0	-1.0	0.7	0.2	0.2	7.8	5.9	4.0
Singapore	3.6	3.1	2.5	0.6	0.6	1.7	-0.3	1.0	-0.6	18.9	19.4	18.5	4.1	4.0	3.8
Spain	3.0	2.5	2.3	2.0	1.8	1.7	-3.1	-2.7	-2.0	1.8	1.1	0.9	5.2	3.0	3.7
South Korea	3.1	2.6	2.5	1.9	1.5	2.0	1.4	0.9	0.4	5.1	4.3	4.8	1.9	2.8	2.3
Sweden	2.4	2.6	2.6	1.8	1.8	1.9	1.3	1.0	1.0	3.3	2.0	3.4	3.7	3.1	3.2
Switzerland	1.6	3.0	1.6	0.5	0.9	1.0	1.3	0.8	0.6	8.9	8.6	8.9	3.6	3.5	3.5
United Kingdom	1.7	1.3	1.5	2.7	2.5	1.9	-1.9	-1.9	-1.7	-3.7	-3.2	-2.7	5.7	1.4	3.0
United States	2.2	2.9	2.5	2.1	2.5	2.1	-4.1	-6.3	-6.4	-2.3	-2.3	-2.5	3.0	4.3	2.2
Eurozone	2.5	2.0	1.7	1.5	1.8	1.6	-0.9	-0.5	-0.6	3.5	3.2	2.9	5.5	2.9	3.4

	Private cons. (% change p.a.)			Fixed investment (% change p.a.)			Government consumption (% change p.a.)			Retail sales (% change p.a.)			Industrial prod. (% change p.a.)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Australia	2.7	2.9	2.3	3.2	2.6	0.4	3.6	4.8	2.7	2.2	2.5	2.2	1.1	3.7	2.8
Austria	1.6	2.1	2.0	3.9	3.6	3.0	1.5	1.1	2.0	1.1	0.8	1.9	3.9	4.7	2.3
Belgium	1.3	1.1	1.6	0.7	2.9	2.9	1.3	0.9	1.0	-0.1	0.3	1.9	2.9	2.6	2.0
Canada	3.4	2.2	1.8	2.8	3.9	2.2	2.3	2.5	1.5	5.7	0.9	1.8	5.3	2.7	1.6
Denmark	1.6	2.9	2.9	4.5	8.3	0.1	0.6	1.6	2.2	0.7	2.0	2.9	2.0	1.2	2.2
Finland	1.3	2.0	1.9	4.0	3.8	3.0	-0.5	3.0	1.0	3.0	1.8	1.5	3.9	3.8	1.9
France	1.1	0.9	1.2	4.7	3.0	3.4	1.4	1.1	1.4	3.7	2.8	2.3	2.4	1.1	1.6
Germany	2.0	1.4	2.0	3.6	3.0	3.0	1.6	1.2	1.9	3.0	1.5	2.1	3.3	1.9	1.9
Greece	0.2	1.1	1.8	9.5	-10.4	8.9	-1.2	-1.7	0.9	1.3	2.4	2.1	4.5	1.2	2.0
Hong Kong	5.5	5.9	2.0	3.5	2.0	3.1	3.4	3.8	2.6	1.9	8.8	2.8	0.5	1.3	-0.2
Ireland	1.9	2.5	2.2	-30.5	-7.4	4.1	3.9	3.3	2.7	5.7	3.5	4.6	-2.5	0.5	4.1
Italy	1.4	0.9	0.8	3.9	3.8	1.8	0.1	0.2	0.4	0.0	-0.3	1.0	3.7	1.3	1.7
Japan	1.0	0.6	1.4	2.5	2.2	2.4	0.4	0.4	0.6	1.9	0.9	1.1	4.5	1.4	1.9
Luxembourg	2.6	3.6	2.9	1.9	1.5	3.3	1.8	3.0	2.8	-24.1	1.9	2.2	2.4	4.1	3.4
Netherlands	1.9	2.6	1.4	6.2	5.1	2.8	1.1	1.2	1.0	3.1	2.9	1.4	1.9	0.1	1.0
New Zealand	4.4	2.8	2.6	3.4	3.7	2.4	4.4	2.9	0.2	5.4	3.4	2.9	2.0	1.8	1.9
Norway	2.5	2.3	2.2	3.6	-0.8	4.1	2.5	2.1	1.7	2.1	2.0	2.4	2.2	1.0	0.9
Portugal	2.3	2.2	1.8	9.2	4.1	3.8	0.2	0.9	0.9	4.1	3.3	1.1	4.0	0.9	2.1
Singapore	3.1	2.4	4.1	-1.8	2.4	2.6	4.1	4.2	1.1	1.4	-0.6	2.6	10.6	8.4	3.9
Spain	2.5	2.3	1.8	4.8	5.8	4.1	1.9	1.9	1.6	0.9	0.7	1.3	3.2	1.0	2.0
South Korea	2.6	2.6	2.1	8.6	-0.9	1.4	3.4	5.3	5.3	2.0	4.6	2.3	2.5	0.8	2.2
Sweden	2.3	2.4	2.3	6.5	3.8	3.1	0.4	1.1	1.3	2.3	2.0	2.7	4.7	3.1	0.9
Switzerland	1.1	1.3	1.6	3.3	3.2	1.8	0.9	0.9	0.5	-1.0	0.6	1.2	5.7	6.3	3.7
United Kingdom	1.9	1.5	1.0	3.3	0.7	3.0	-0.1	0.4	0.7	2.2	3.0	2.9	2.0	0.9	0.9
United States	2.5	2.6	2.6	4.0	4.9	2.9	-0.1	1.3	1.8	3.8	3.1	2.5	1.6	3.7	2.8
Eurozone	1.7	1.4	1.6	2.8	3.2	3.1	1.2	1.1	1.4	2.4	1.6	1.7	2.9	1.4	1.9

Sources: Oxford Economics, Atradius

Table A2: Macroeconomic headline figures - emerging markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Current account (% of GDP)			Private cons. (% change p.a.)			Export growth (% change p.a.)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
China	6.9	6.6	6.0	1.5	2.2	2.5	1.3	0.0	0.1	6.6	6.9	6.7	6.5	4.8	3.7
India	6.2	7.6	7.2	3.3	4.5	5.0	-1.6	-2.5	-2.5	5.9	7.5	7.3	6.5	9.7	5.5
Indonesia	5.1	5.1	5.1	3.8	3.3	3.7	-1.7	-2.4	-2.4	5.0	5.1	5.1	9.1	5.5	5.3
Malaysia	5.9	4.8	4.6	3.8	1.1	2.7	2.9	2.5	3.0	7.0	8.0	5.4	9.4	2.5	3.6
Thailand	3.9	4.4	3.4	0.7	1.3	1.5	11.0	8.5	7.5	3.2	4.2	3.8	5.5	5.0	3.2
Emerging Asia	**6.0**	**6.0**	**5.6**	**2.4**	**2.9**	**3.4**	-	-	-	-	-	-	-	-	-
Argentina	2.8	-2.8	-1.2	24.6	33.2	35.8	-4.9	-5.5	-3.9	3.5	-0.4	-5.5	1.1	-0.4	7.5
Brazil	1.0	1.1	2.3	3.4	3.7	4.4	-0.5	-0.8	-1.0	0.9	1.5	2.1	5.7	2.6	5.1
Chile	1.6	4.1	2.9	2.2	2.5	2.9	-1.5	-2.2	-2.1	2.5	4.1	2.8	-1.0	4.5	2.1
Colombia	1.8	2.7	3.3	4.3	3.3	3.2	-3.4	-2.7	-2.4	1.8	2.7	3.6	-0.7	2.9	4.1
Mexico	2.3	2.0	2.2	6.0	4.9	4.1	-1.7	-2.0	-2.2	3.3	2.7	2.0	3.9	4.5	3.5
Peru	2.5	3.9	3.8	2.8	1.6	2.2	-1.3	-1.3	-0.7	2.5	4.5	3.5	7.4	4.0	5.7
Venezuela	-9.2	-6.8	-0.7	1277.1	14223.9	7591.8	6.5	4.3	1.5	-8.9	-2.4	-0.2	-12.2	-34.3	-7.1
Latin America	**1.2**	**0.9**	**1.8**	**6.3**	**7.6**	**8.2**	-	-	-	**1.7**	**1.8**	**1.7**	-	-	-
Bulgaria	3.8	3.5	3.5	2.1	2.7	2.8	6.5	1.7	2.5	4.5	7.7	4.2	5.8	-1.3	4.0
CIS	2.1	2.4	2.0	5.6	4.9	6.0	-	-	-	-	-	-	-	-	-
Czech Republic	4.5	3.0	2.7	2.4	2.3	2.1	1.1	1.4	0.3	4.4	3.6	2.8	7.2	4.3	3.6
Hungary	4.4	4.4	2.9	2.3	2.9	3.2	3.2	2.0	1.8	4.8	5.1	2.8	4.7	7.7	4.7
Poland	4.6	4.6	3.2	2.0	2.0	2.1	0.2	0.2	-0.2	4.8	4.6	4.0	7.9	5.2	5.1
Romania	6.8	3.6	2.3	1.3	4.6	3.0	-3.4	-3.6	-2.4	9.9	3.7	3.5	9.0	6.4	4.6
Russia	1.5	1.9	1.4	3.7	2.9	5.1	2.2	6.5	7.6	3.3	2.6	2.8	5.1	5.7	1.7
Turkey	7.3	3.2	-1.7	11.1	17.9	22.2	-5.5	-6.3	-3.3	6.1	3.1	-4.3	11.9	5.5	8.5
Ukraine	2.5	3.2	3.3	14.4	11.5	9.0	-1.9	-2.6	-1.7	7.6	4.0	3.0	3.5	2.9	4.5
Central & Eastern Europe	**3.1**	**3.0**	**2.4**	**4.1**	**3.3**	**4.3**	-	-	-	-	-	-	-	-	-
Egypt	4.2	5.3	5.4	29.5	13.4	11.3	-4.1	-3.9	-3.4	4.2	1.3	2.8	86.0	31.2	10.3
Morocco	4.1	3.2	3.9	0.8	2.6	2.6	-3.5	-3.9	-3.7	4.0	3.2	3.5	8.8	9.7	8.7
Qatar	1.6	2.7	3.3	0.4	1.0	2.8	3.8	6.3	6.9	4.4	4.6	5.3	0.7	1.3	0.6
Saudi Arabia	-0.8	2.0	2.9	-0.8	3.2	2.0	2.2	3.1	3.2	3.2	3.0	2.5	-2.3	0.2	3.1
Tunisia	2.0	2.1	2.2	5.3	7.4	6.7	-10.4	-10.0	-9.7	1.1	1.2	1.5	2.5	4.7	3.8
United Arab Emirates	0.8	2.0	3.1	2.0	3.7	2.0	6.9	4.5	3.5	-1.3	2.0	2.0	0.5	4.4	5.8
MENA	**1.8**	**2.7**	**2.2**	**12.8**	**15.5**	**15.9**	-	-	-	-	-	-	-	-	-
Ghana	8.5	6.7	5.9	12.4	10.2	9.8	-4.2	-4.3	-4.4	3.8	6.9	6.3	15.0	6.2	6.1
Kenya	4.9	5.4	5.6	8.0	4.4	5.6	-6.7	-7.5	-7.4	7.0	6.3	5.8	-6.2	4.3	6.4
Nigeria	0.8	1.8	2.8	16.5	12.2	11.3	2.9	4.5	3.0	-1.0	1.3	3.0	8.7	3.9	4.3
South Africa	1.3	0.7	2.1	5.3	4.8	5.9	-2.4	-3.5	-3.9	2.2	1.6	1.7	-0.1	1.0	3.1
Sub-Saharan Africa	**2.3**	**2.7**	**3.5**	**11.8**	**9.7**	**9.0**	-	-	-	-	-	-	-	-	-

Sources: Oxford Economics, Atradius

Table A3: Insolvency growth (% per annum)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018f	2019f
Australia	-4	18	3	-1	5	1	4	-22	10	-12	-7	-6	-7
Austria	-6	0	9	-8	-8	3	-10	-1	-5	1	-3	0	2
Belgium	1	10	11	2	7	4	11	-9	-9	-6	9	-3	0
Canada	-10	-7	-2	-11	-9	-4	0	-1	3	3	-3	1	-1
Denmark	-	-	-	-3	-22	4	-15	-21	15	18	-4	16	-3
Finland	19	100	50	10	7	0	6	-5	-14	-6	-10	20	-2
France	7	7	14	-5	-1	3	3	0	0	-8	-5	-7	-3
Germany	-15	0	12	-2	-6	-6	-8	-7	-4	-7	-7	-4	0
Greece	-3	-35	68	-35	-4	19	31	-16	-43	-43	11	-11	-2
Hong Kong	7	-3	50	-43	-13	2	15	3	1	-9	-14	-8	2
Ireland	19	100	50	10	7	3	-19	-15	-10	-2	-15	-5	0
Italy	-41	22	25	20	8	3	13	11	-6	-9	-11	-6	4
Japan	6	11	-1	-14	-4	-5	-10	-10	-8	-6	0	-1	2
Luxembourg	5	19	17	32	8	8	1	-19	3	13	-5	17	-6
Netherlands	-13	-14	53	-9	0	19	10	-22	-24	-19	-22	-13	0
New Zealand	-5	-35	45	-5	-12	-7	-13	-7	4	3	-22	-9	-3
Norway	-6	41	47	-17	0	-13	18	6	-3	-1	4	14	0
Portugal	-12	39	28	21	-5	46	1	-13	12	-6	-16	-15	-5
Singapore	-7	-16	-12	-25	-1	14	14	-12	1	1	-9	-4	0
South Korea	-9	19	-27	-21	-13	-10	-18	-16	-14	-23	-11	-8	-2
Spain	18	188	88	-4	15	32	10	-27	-21	-9	3	-3	0
Sweden	-5	7	20	-4	-4	7	4	-6	-11	-5	6	9	-5
Switzerland	0	-7	24	20	-22	41	-5	-10	4	7	3	6	0
United Kingdom	-10	35	14	-18	4	-4	-9	-8	-10	0	0	8	4
United States	42	52	41	-7	-15	-16	-17	-19	-8	-2	-4	-8	-2

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

Table A4: Insolvency level, index (2007 = 100)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018f	2019f
Australia	100	118	121	120	126	127	133	104	115	101	94	89	82
Austria	100	100	110	101	93	96	87	86	82	83	81	81	82
Belgium	100	110	123	125	133	138	153	140	127	119	130	126	126
Canada	100	93	91	89	81	77	78	77	79	82	79	80	79
Denmark	-	-	100	97	76	78	67	53	60	71	68	78	77
Finland	100	116	145	127	131	131	139	132	114	107	96	115	113
France	100	107	123	117	115	118	122	121	122	112	106	99	96
Germany	100	100	112	110	103	97	89	83	79	74	69	66	66
Greece	100	65	109	71	68	81	106	89	51	29	33	29	28
Hong Kong	100	97	146	83	72	74	85	87	88	81	69	63	65
Ireland	100	200	300	330	354	364	295	252	227	223	203	197	197
Italy	100	122	152	182	197	203	229	254	239	219	195	183	190
Japan	100	111	110	95	90	86	77	69	64	60	60	59	60
Luxembourg	100	119	139	183	197	213	215	175	180	204	194	227	213
Netherlands	100	86	132	119	120	143	157	122	92	75	58	51	51
New Zealand	100	65	95	89	79	73	64	59	61	63	49	45	43
Norway	100	141	207	171	172	150	176	186	180	179	187	214	214
Portugal	100	139	179	216	205	300	303	262	294	277	233	198	188
Singapore	100	84	74	56	55	63	72	64	64	65	59	57	57
South Korea	100	119	87	68	59	54	44	37	31	24	22	20	19
Spain	100	288	540	520	598	791	866	635	501	458	473	459	459
Sweden	100	107	128	123	118	126	130	122	108	103	109	119	113
Switzerland	100	93	115	138	107	151	143	130	135	144	148	156	156
United Kingdom	100	135	153	125	130	124	113	104	93	93	93	99	102
United States	100	152	215	199	169	142	118	95	88	85	82	76	74

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