



no. 5
2011

Global Macroeconomic Review

In the face of slowdowns and turbulence, world economic recovery is going through tumultuous times

Spotlight
on Country Risk

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Economic Outlook



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Contents

no.5

Global Macroeconomic Review

Economic Outlook no. 5 | 2011 - Global Macroeconomic Review

Editorial
page 3

World economic
growth and world
trade
page 3

Spotlight on
Country Risk
page 40

Statistical Annex
page 48

Country analysis
page 10

United States ▶ An evident slowing in H1 2011	page 10
Canada ▶ On course, after strong acceleration	page 12
Japan ▶ The catastrophe and the reconstruction efforts increase the challenges	page 14
Euro Zone ▶ The debt crisis is exacerbating economic disparities and political tensions	page 16
Germany ▶ Driving the European economy	page 18
France ▶ Recovery is continuing but still facing obstacles	page 20
Italy ▶ A slippery slope	page 22
Spain ▶ Not yet out of the woods	page 24
Netherlands ▶ Poor domestic demand	page 26
Belgium ▶ The economic crisis is past, the political crisis remains	page 28
Greece ▶ Only a temporary stay: gaining time is not enough	page 30
United Kingdom ▶ Recovery by a hair's breadth	page 32
Sweden ▶ Slowing, but after a spectacular revival	page 34
Brazil ▶ Policy tightening continues	page 36
China ▶ Inflation focus	page 37
India ▶ Policy Focus is Inflation, as Growth Remains Buoyant	page 38
Russia ▶ V-shaped recovery	page 39

Implantations
page 52

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Editorial

Unfortunate opening moves

A new wind of pessimism blew through financial markets over the first days of July, sending European stock markets into a heavy fall after having barely recovered from two months of losses. Interest rates in countries on the Eurozone's southern periphery soared. And traditional safe haven placements shot up in value, such as the Swiss franc and gold, the latter blasting off to a record \$1,600 an ounce. After Greece, Ireland, Portugal and Spain, it was the turn of Italy – the Eurozone's third richest country after Germany and France – that found itself in the gun sights of the markets, once again follow the threat of having its sovereign debt downgraded by a rating agency. This led to a share price decline for the European banks most highly exposed to sovereign debt. There is no shortage of arguments to justify these bursts of panic: colossal public debt, consolidation plans of insufficient or no credibility, unstable political situations, etc. For its part, Europe's political class is developing a sense of injustice. This is understandable. First, the countries of the Eurozone are among the first to have committed themselves to deficit reduction, doing so to the detriment of their own growth. Many efforts (including drastic plans) have been undertaken and many goals have been met since the start of the crisis – even if the path promises to be even longer. Second, and moreover, prejudging the insolvency of one of the member countries of the Eurozone is rather like betting on the split-up of the world's second biggest economic unit (22.5% of world GDP) after the United States (25.5%), itself in trouble over its public finances (with national debt at its legal limit and on a course deemed unsustainable). Such a scenario – one unimaginable a few years ago – is starting to gain ground, and the difficulties faced by the governing classes to reach a consensus on actions needed to stem the pressure on debt are contributing greatly to this. This is the case in the Eurozone where member countries, including Germany and France, are struggling to get together and agree on solutions to the Greek debt crisis, forcing the urgent staging of an extraordinary summit on July 21. And this is also the case in the United States, where Democrats and Republicans continued to engage in endless battle despite the threat of an imminent default on the August 2 deadline and despite the warnings of rating agencies. Unless a politically and financially acceptable compromise is made very soon, this will not be a restful summer. [_Maxime Lemerle](#)

Revised forecasts

GDP growth 2011

	dec 2010	june 2011	Revision
World	3.2%	3.1%	-0.1%
USA	2.8%	2.4%	-0.4%
Canada	2.4%	2.8%	0.5%
Japan	0.9%	-1.0%	-1.9%
EMU	1.3%	1.9%	0.6%
Germany	2.1%	3.2%	1.2%
France	1.3%	1.8%	0.5%
Italy	1.0%	0.9%	0.0%
Spain	0.5%	0.7%	0.3%
Netherlands	1.3%	2.0%	0.7%
Belgium	1.5%	2.3%	0.9%
Austria	2.0%	3.0%	1.0%
Finland	2.6%	3.5%	0.9%
Greece	-2.2%	-3.6%	-1.4%
Ireland	0.9%	0.1%	-0.8%
Portugal	0.1%	-2.1%	-2.2%
UK	1.5%	1.4%	-0.1%
Sweden	3.4%	4.4%	1.0%
Denmark	1.7%	1.2%	-0.5%
Norway	1.6%	2.4%	0.8%
Switzerland	1.9%	2.2%	0.2%
Central and Eastern Europe	3.1%	3.9%	0.8%
Russia	3.0%	4.1%	1.1%
Asia (excluding Japan)	7.1%	7.0%	-0.1%
China	8.8%	8.5%	-0.3%
India	8.5%	8.0%	-0.5%
Latin America	3.6%	4.2%	0.6%
Brazil	4.3%	4.0%	-0.3%
Middle East and Africa	4.3%	3.4%	-0.9%
OECD	1.9%	1.7%	-0.2%
non OECD	5.5%	5.7%	0.2%

Sources : National figures, Euler Hermes forecasts

World economic growth

In the face of slowdowns and turbulence, world economic recovery is going through tumultuous times

Overview

The world economy has entered a downturn that was expected, but the proliferation of slowdown signals, exogenous shocks and financial turmoil has raised fears about the potential scale and duration of the slowdown, particularly for countries that benefited least from the recovery phase. After posting sharp recovery since mid-2009, confirmed by the growth figures for 2010 (+4.1%), particularly thanks to the strength of the emerging countries, the global economy did not seem to have been able to avoid slowdown for a wide range of factors: the end of the engines driving the technical component of the recovery, the winding down of the stimulus measures, the persistence of cyclical and structural weaknesses in those developed countries most affected by the previous crisis, especially in Europe (excess capacities, high unemployment, debt reduction needs on the part of households and the even greater need for consolidation in public finances, etc.) and, conversely, the rise of cyclical obstacles on the side of the emerging countries leading the global recovery (inflationary pressures, monetary tightening, exchange rate appreciation, dependence on exports to developed countries, etc.). The first half of 2011 has only reinforced the prospects of a slowdown. The United States has been slowing from the first quarter. China continued its very gradual easing up to Q2. Europe, and in particular the Eurozone, which owes its good performance at the beginning of the year in large part to Germany and to temporary support factors, in the second quarter posted, if not a downward correction then at least a clear easing in indicators and surveys of business sentiment. Last but not least, a series of exogenous shocks – climactic in the United States and

Australia, socio-political in the Middle East and North Africa, seismic and nuclear in Japan – were added to the mix, with corresponding direct negative impact locally and indirect negative impact worldwide. In the short term, the global economy should absorb the shocks arising from the earthquake and tsunami in Japan – their impact both on the Japanese economy (the world's biggest) and on the rest of the world (Japan is the world's fourth largest importer and exporter of goods), especially on its industrial sectors, before upside of reconstruction effects is felt. The world economy also needs to resist the higher inflation that has been seen the wake of higher food commodity prices, occasionally pumped up by weather events, and of energy prices, particularly oil, boosted at times by events in the Arab world (Tunisia, Egypt, Libya, Syria, etc.), or the flagging of household purchasing power both in the developed countries and even more in emerging countries. Such a context – fertile ground for downward revisions in forecasts – does nothing to facilitate monetary policy decisions, neither in the developed countries (especially given the weakness in domestic demand) nor in the emerging countries (particularly given their unwanted impact on exchange rates exchange and speculative capital flows). Also, the turbulent environment revives questions surrounding rebalancing – and for some countries, the viability – of public finances, especially for the Eurozone (see page 16 and sidebar on page 8). These are all sources of turbulence in the financial sphere, in all its markets (stocks, money, bonds, and currencies), and sources of potential turbulence boomeranging on the real economy. Our central forecast, by design, excludes any new difficulties, particularly in the

wake of the sovereign debt crisis, and assumes a gradual weakening of the past shocks, allowing a gradual return to the macroeconomic fundamentals. whose trend, beyond a temporary easing, is positive for the world at large. The global economy, despite the strong recession in Japan, should therefore see growth fall by a percentage in 2011 (+3.1% after +4.1% in 2010), with no outright acceleration in 2010 (+3.4% due to base effects), with world trade treading a fairly parallel path (up 8% to 9% in 2011-2012, after +14% in 2010).

The weakening of the world economy is becoming clearer, especially since Q2

In early 2011, the slowdown in the global economy was not clear to everyone, still focused on the 2010 results that testified to a clear rebound in world GDP (+4.1%), to above its pre-crisis peak, and an ongoing chain of seven successive quarters of expansion, with a further qtr/qtr acceleration at end of year thanks to the emerging economies, a few northern European countries, and still strong expansion in North America. Things became clearer ►

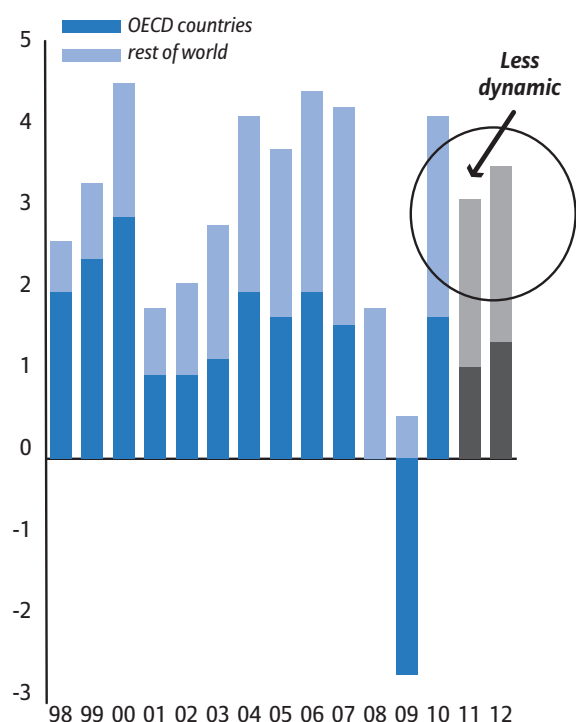
Inflation*

	2010	2011	2012
Greece	4.7%	3.4%	1.0%
UK	3.3%	4.0%	2.6%
Norway	2.4%	1.7%	2.1%
Denmark	2.3%	2.6%	1.6%
Belgium	2.3%	3.2%	2.2%
Spain	2.0%	2.9%	2.0%
Austria	1.8%	3.1%	1.9%
Canada	1.7%	3.1%	2.0%
EMU	1.6%	2.6%	1.8%
Italy	1.6%	2.7%	1.9%
France	1.5%	2.0%	1.6%
USA	1.5%	3.1%	1.8%
Sweden	1.5%	2.9%	2.2%
Portugal	1.4%	3.1%	1.5%
Finland	1.4%	3.1%	2.0%
Germany	1.3%	2.3%	1.9%
Netherlands	1.0%	2.2%	1.7%
Switzerland	0.7%	0.9%	0.9%
Japan	-0.6%	0.3%	0.2%
Ireland	-1.6%	1.0%	0.5%

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

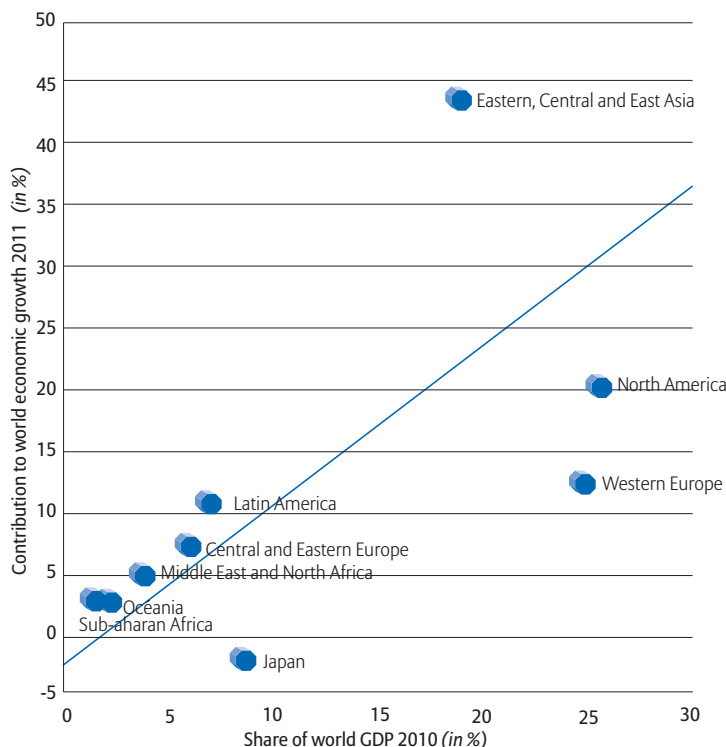
World economic growth

Annual average contribution to world growth, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Contributors to economic growth, 2011



Sources: IHS Global Insight, Euler Hermes calculations and forecasts

Economic Forecasts

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

forecasts

GDP	Weighting (*)	2009	2010	2011	2012	09-10	12-10	03-11	06-11	09-11	12-11
World	100.0	-2.0%	4.1%	3.1%	3.4%						
USA	25.5	-2.6%	2.9%	2.4%	2.6%	0.6%	0.8%	0.5%	0.5%	0.6%	0.6%
Canada	2.4	-2.8%	3.2%	2.8%	2.4%	0.6%	0.8%	1.0%	0.6%	0.4%	0.5%
Japan	9.1	-6.3%	4.0%	-1.0%	2.7%	0.9%	-0.7%	-0.9%	-1.0%	0.9%	1.2%
EMU	22.5	-4.1%	1.7%	1.9%	1.6%	0.4%	0.2%	0.8%	0.3%	0.2%	0.4%
Germany	6.0	-4.7%	3.5%	3.2%	1.9%	0.8%	0.4%	1.5%	0.4%	0.3%	0.3%
France	4.8	-2.6%	1.4%	1.8%	1.7%	0.4%	0.3%	0.9%	0.1%	0.3%	0.3%
Italy	3.8	-5.2%	1.2%	0.9%	1.0%	0.3%	0.1%	0.1%	0.3%	0.3%	0.2%
Spain	2.6	-3.7%	-0.1%	0.7%	1.0%	0.0%	0.2%	0.3%	0.3%	0.0%	0.1%
Netherlands	1.4	-3.9%	1.8%	2.0%	1.6%	0.1%	0.7%	0.9%	0.1%	0.3%	0.4%
Belgium	0.8	-2.7%	2.1%	2.3%	1.9%	0.4%	0.5%	1.1%	0.3%	0.2%	0.4%
Austria	0.7	-3.4%	2.1%	3.0%	2.1%	1.2%	1.0%	0.9%	0.5%	0.3%	0.3%
Finland	0.4	-8.3%	3.2%	3.5%	2.3%	0.4%	1.8%	0.8%	0.2%	0.5%	0.4%
Greece	0.6	-2.3%	-4.4%	-3.6%	0.1%	-1.6%	-2.8%	0.2%	-0.6%	-0.4%	0.7%
Ireland	0.4	-7.6%	-1.0%	0.1%	1.4%	0.6%	-1.6%	0.4%	0.7%	0.8%	0.3%
Portugal	0.4	-2.5%	1.3%	-2.1%	-0.5%	0.3%	-0.6%	-0.7%	-0.9%	-0.6%	-0.8%
UK	3.9	-4.9%	1.3%	1.4%	1.8%	0.7%	-0.5%	0.5%	0.4%	0.4%	0.6%
Sweden	0.7	-5.3%	5.4%	4.4%	2.5%	1.9%	1.6%	0.8%	0.6%	0.6%	0.6%
Denmark	0.6	-5.2%	2.1%	1.2%	1.7%	1.1%	-0.2%	-0.5%	0.7%	0.7%	0.8%
Norway	0.7	-1.6%	0.3%	2.4%	2.5%	-1.6%	2.3%	-0.4%	1.6%	1.3%	0.4%
Switzerland	0.9	-1.9%	2.6%	2.2%	1.9%	0.8%	0.8%	0.3%	0.6%	0.4%	0.4%
Central and Eastern Europe	6.4	-5.9%	4.2%	3.9%	3.9%						
Russia	2.4	-7.8%	4.0%	4.1%	4.2%						
Asia (excluding Japan)	18.6	5.9%	8.8%	7.2%	7.2%						
China	8.8	9.2%	10.3%	9.0%	8.6%						
India	2.2	8.0%	8.5%	8.0%	8.5%						
Latin America	7.0	-1.8%	5.9%	4.2%	4.1%						
Brazil	2.8	-0.6%	7.5%	4.0%	4.3%						
Middle East and Africa	2.2	1.4%	4.1%	3.4%	4.3%						

at the end of winter, with the publication of Q1 national accounts that pointed to a net slowing in the US, further contraction in Japan, a slight easing in Chinese growth and a better performance for the Eurozone but due essentially to Germany (accounting for half of the gains) catching-up activity after the bad climatic conditions of Q4 2010, and the very tail-end of supports for new automobile purchases. In the second quarter, the signs of decline have become even more evident. This was the case for global indicators of activity published up to April-May, e.g., growth in world industrial output, which was back down to around +5% pa, after +9.8% in 2010, and world trade volumes (+6% pa, after 15% in 2010). The same held true for business survey available for the full quarter, which, although still at levels historically associated with growth, all or nearly all of which posted a marked downward correction on all continents, especially PMI results, which fell back to their lowest levels for the last twelve months. This is true also for world stock market capitalisation and for commodity price indices, which in spring 2011 saw a marked halt to two years of soaring increases. The major exceptions are oil prices, due however to supply issues, and the price of gold, benefiting from its status as a safe haven, rising to an unprecedented \$ 1,600 an ounce.

This is due in part to exceptional (but temporary) shocks...

Part of the economic downturn is due to major events occurring in the first half of 2011: the wave of uprisings in the Arab world, starting in Tunisia in late 2010 and then spreading to Egypt and Libya, and then the disaster that struck northeastern Japan in mid-March. The depressive effects of the first of these events are primarily local in nature (business disruption, lower tourism receipts, etc.), as these economies together account for only a small share of world GDP. However the continued uncertainty implicit in some of these, as in Libya (2% world production

of crude oil in 2009) and Syria, maintains fears of protests spreading through the world's main oil-producing region, despite a lull since grants of money and promises of more to come (Saudi Arabia, Bahrain, Oman and Kuwait), and thereby a risk premium on crude oil prices. This has an unwanted impact on world demand: an increase in the global oil bill (the surplus oil revenue is partly saved) and added inflationary pressures (at a time when household purchasing power is already eroded by the sharp rise in food commodity prices), all of which accelerates the monetary tightening measures, especially in the emerging countries. For its part, the disaster in Japan will have a positive impact, due to reconstruction efforts, on Japanese growth, but this will more certainly be in 2012 and will depend on the lifting of uncertainties surrounding both radioactive contamination (its extent and duration, and the control over conditions at the Fukushima nuclear power facility) and surrounding the country's energy supplies. In the meantime, funding for emergency measures has revived questions about Japan's public finances imbalances (with a public deficit of 8% and debt of 190% in 2010). Japan's temporary air pocket promises to be a big one (with two quarters of strong recession) for many reasons: the economic importance of the four prefectures affected (around 7% of Japan's GDP and population), the length of the paralysis and disruptions resulting from damage to infrastructures and to the electricity grid, worsened by just-in-time practices, and finally the sectors that are primarily affected, given that they are key industries (automobiles, electronics) both for Japan and for its export customers.

...but also due to persistent imbalances that also constitute braking forces

In any event, these shocks can only add, more or less durably, to fundamentals that are heading, admittedly more gradually, to a slowing in the world economy, with the tailing off of the initial factors behind the revival in

activity, more cyclical in nature (the initial monetary stimulus measures, the inventory cycle, and all the various kinds of public intervention), and a return toward the more structural realities of the situations in different economies and their growth potential in the wake of the crisis. But the recovery was and remains unbalanced, with disconnect between two major groups of countries that find themselves exposed to two different kinds of braking factors and for different reasons.

On the one hand, there are the developed OECD countries. Their bounce-back, although a bit better than expected, was generally weaker (+2.5% in 2010 after -3.8% in 2009). Apart from a few exceptions, it has not seen production return to pre-crisis levels nor managed to erase all the scars of the crisis, especially on the jobs front, where, except in Germany, no sizeable improvement has begun (leaving the unemployment rate at the end of H1 2011 at still historically high levels), and on the public finances front, with states needing to make severe rebalancing efforts that often translate into determined programmes of fiscal consolidation, especially in countries that benefited the least from the initial recovery phase (Spain, Italy and the United Kingdom) and in countries ►

Unemployment rate*

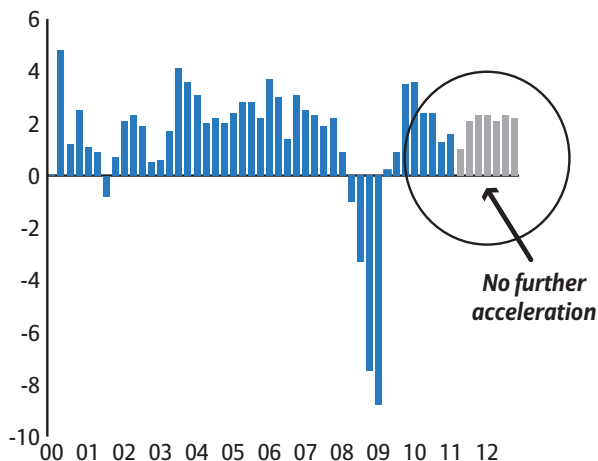
	2010	2011	2012
Spain	20.1%	21.0%	20.2%
Ireland	19.3%	19.2%	18.9%
Greece	12.5%	15.7%	16.8%
Portugal	11.0%	11.6%	11.9%
EMU	9.8%	9.5%	9.0%
France	9.8%	9.4%	8.9%
USA	9.6%	8.9%	8.5%
Sweden	8.4%	7.8%	7.3%
Italy	8.4%	8.7%	8.2%
Finland	8.4%	8.0%	7.6%
Belgium	8.3%	7.6%	7.4%
Canada	8.0%	7.6%	7.1%
UK	7.9%	7.8%	7.5%
Denmark	7.4%	7.3%	6.9%
Germany	7.4%	6.9%	6.6%
Austria	6.9%	6.7%	6.5%
Netherlands	5.5%	5.1%	4.8%
Japan	5.0%	4.5%	4.2%
Switzerland	3.8%	3.2%	3.1%
Norway	3.6%	3.0%	2.8%

Sources : IHS Global Insight, Euler Hermes forecasts

*annual average, in %

Industrialised countries, GDP growth

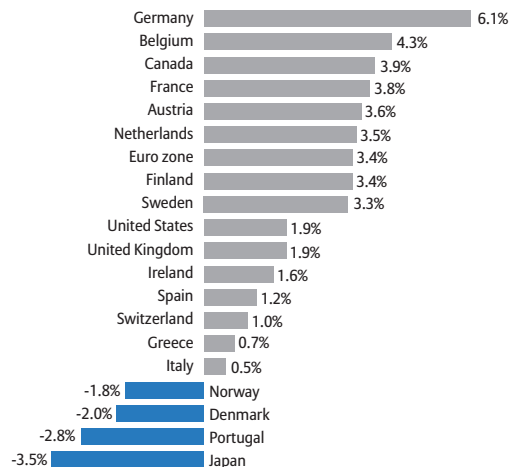
Annualised quarterly GDP growth (Q/Q-1)



Sources : sources nationales, IHS Global Insight, Euler Hermes forecasts

GDP growth

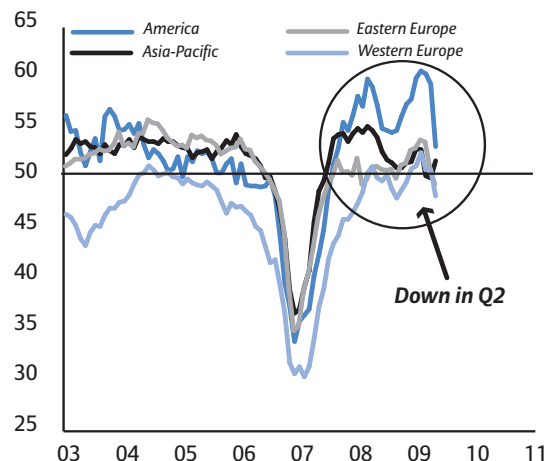
Q1 2011 - annualised rate (%)



Sources : National figures, IHS Global Insight

Industrial confidence

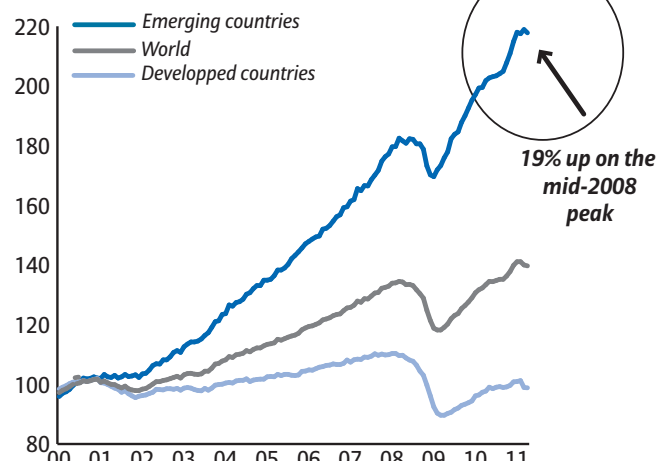
Monthly index



Sources : Euler Hermes

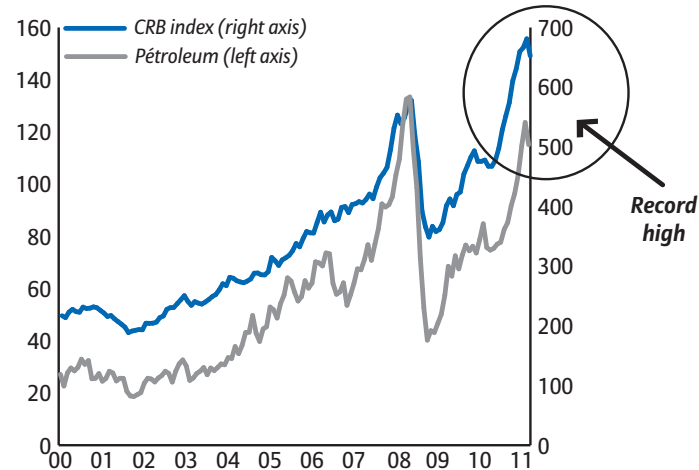
Index of industrial output

basis 2000 = 100



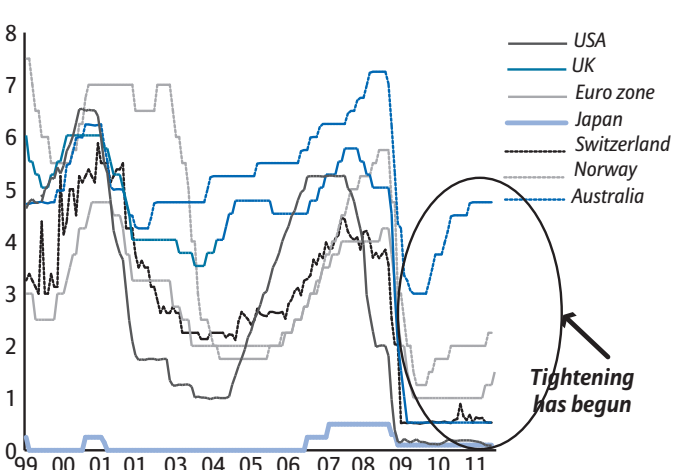
Source : CPB

Commodities



Sources : National figures, IHS Global Insight.

Key interest rates



Sources : National figures, IHS Global Insight

caught up in the turmoil surrounding sovereign debt (Greece, Ireland and Portugal). Businesses are the only economic agents to have carried out significant adjustment efforts.

In the emerging countries, by contrast, the revival in economic growth was far more sustained (+7% in 2010, after +1.6% in 2009), particularly for countries in Asia (+8.8%) which benefited not only from their own addition to recovery plans but also from the driving forces of growth in China (+10.3%) and India (+8.5%). In the emerging countries very often, the resumption of exports and the rise of domestic demand helped to erase the impact of the crisis and to achieve levels of industrial output and trade above those posted in the summer of 2008 (respectively by +20% and +9% at the end of April 2011), notably due to performances in Asia (+32% and +15%) and in Latin America (+1% and +8%). For many of them, however, monetary policy has already shifted to a more moderating stance, with a long list of rate hikes over 2010 and early 2011, first to limit the risks of overheating and then to contain the rise in inflation, notwithstanding the negative impact on export competitiveness resulting from currency appreciations or on financial stability from speculative capital inflows. [_ML](#)

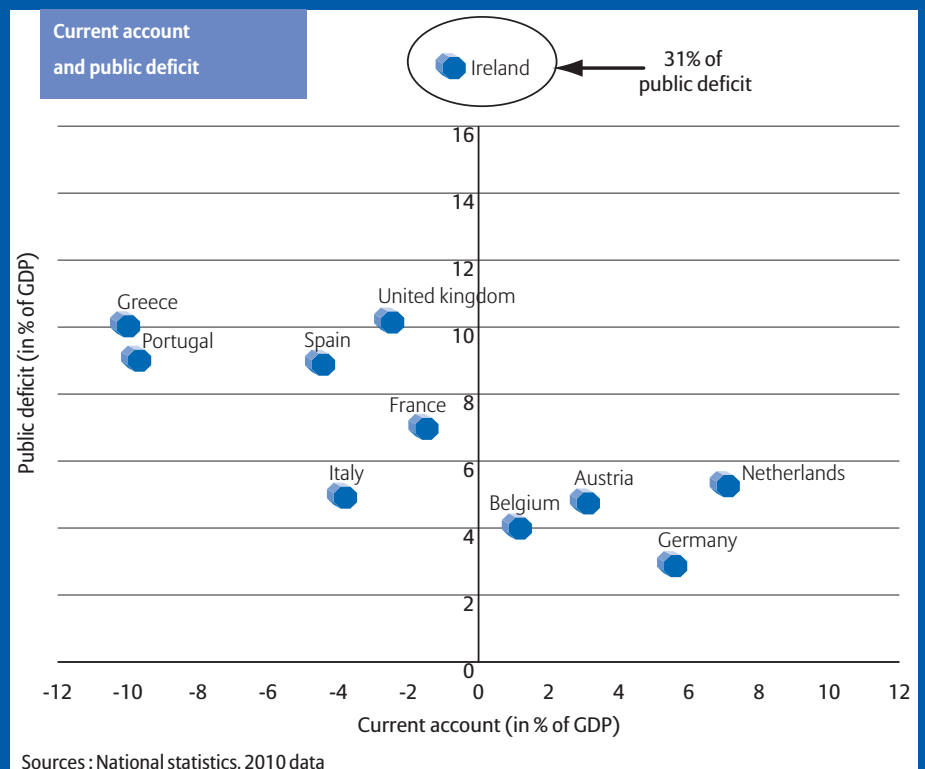
European public finances: increased pressures

Fiscal consolidation has become the major focus for European countries this year. And even while most of them have committed to large-scale austerity measures, the financial markets (via speculative attacks) and the rating agencies (via revisions in ratings) continue to question the sustainability of their programmes. This has resulted in heavy trading in shares issued by financial institutions that have significant sovereign debt exposure, with genuine explosions in interest rates on sovereign debt, notably for states on the southern periphery of the Eurozone. While these attacks initially concerned only a few smaller economies (Greece and Ireland) accounting for just 4% of Eurozone GDP, and therefore more easily secured, they have become more intense, (with drastic downgradings and heightened anticipations of default) and are widening to increasingly target states of greater systemic importance, such as Spain and Italy (or 28% of Eurozone GDP) and which are harder to secure.

Debt crisis: public debt and current account balances in context

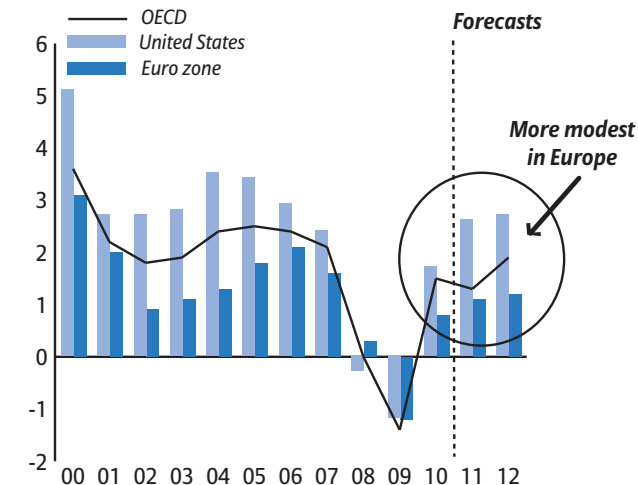
Our aim here is to create a framework for understanding the sovereign debt crisis in Europe by drawing a parallel between a country's cur-

rent account balance, which is an indicator of a nation's financial health (public and private agents included), and its public deficit, which reflects the financial health of the state. At any given instant, the financial stability of a country is deemed threatened if the deficit of one domestic agent is not offset by the surplus of another. As regards the countries that interest us here, the public budget balance is still negative, and challenge will thus be to determine whether the private sector has the ability to offset the public sector's financing needs. On the graph, from left to right, at a constant public deficit, an increase in the current account balance implies a better financial situation of the domestic private sector. Apart from Ireland (an exceptional case, with a 31% deficit), this approach seems to well summarise the movements seen most recently. As expected, Greece and Portugal are at the left of the graph, followed by Spain and Italy, France and the UK are in an intermediate position, with a relatively small current account deficit. Germany, however, which sets the standard, is at the extreme right of the graph. [_ML](#)



Consumption

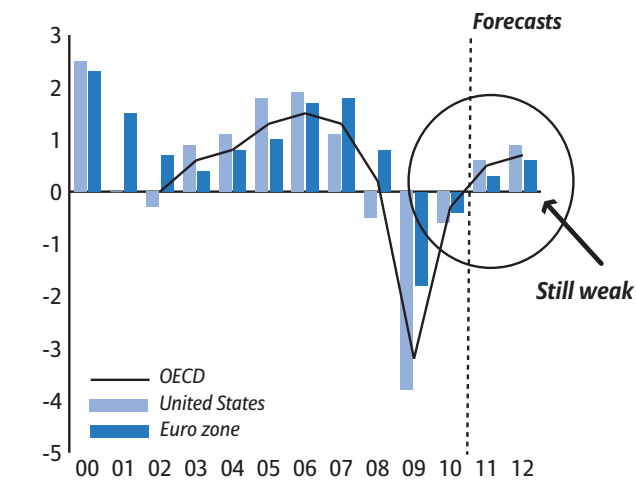
Yearly change, in %



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

Employment

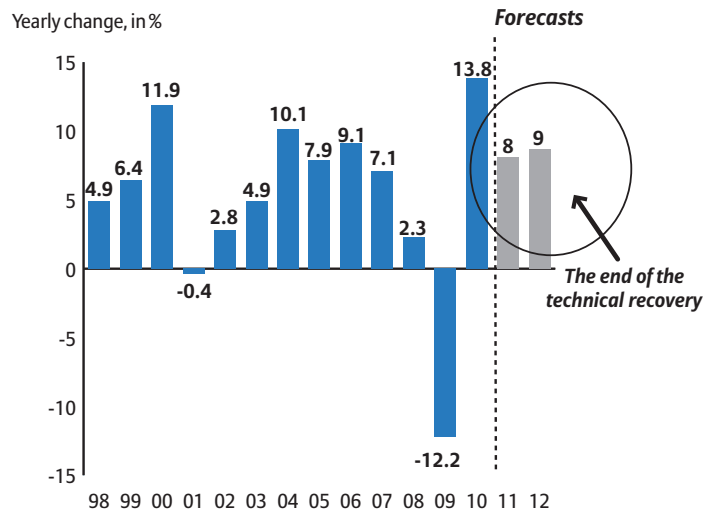
Yearly change, in %



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

World trade in goods and services

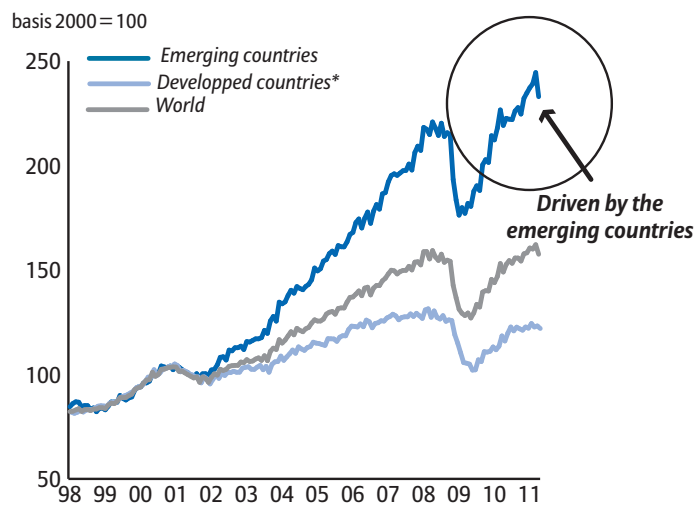
Yearly change, in %



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

World imports

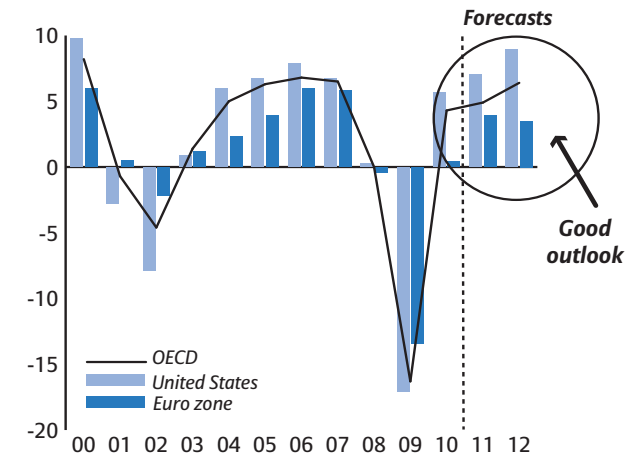
basis 2000 = 100



Sources: CPB
*OECD countries, except Turkey, Mexico, Korea and European countries

Investment

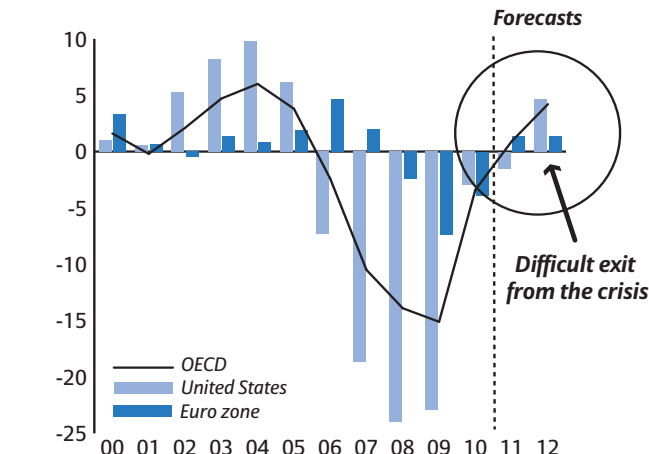
Yearly change, in %



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

Construction

Yearly change, in %



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

United States

An evident slowing in H1 2011

Overview

Having moved just past its pre-crisis peak at the end of 2010, the US economy posted a sharp weakening in its recovery over H1 2011, with GDP growth braking significantly in Q1 (to +1.9% yr/yr) and a series of disappointing indicators showing either deceleration or slowdown in Q2 (real estate prices, consumer confidence, auto sales, ISM indices, etc.), and the jobs market in particular posting an unemployment rate still around 9%. Some of the loss of impetus is due to a few short-lived factors (floods and tornadoes in the US, supply disruptions following events in Japan, rising energy prices, and political tensions over public finances, etc.). As they gradually recede, this should allow a consolidation in growth over H2, but any acceleration in activity should prove difficult in the absence of improvements in the jobs market and in real estate.

Monetary policy: durably accommodating

The Federal Reserve has little reason to quickly change its monetary policy, given the June statements of the FOMC, which again ended by keeping the status quo. Thus, long-term interest rates promise to durably remain in the range of 0%-0.25% in force since late 2008, while the second round of Quantitative Easing 2 (QE2) for the purchase of long-term US Treasury bonds, totalling \$600 billion, was completed at the end of June, without the implementation of a QE3, and with the Fed likely for several more months to continue its policy of reinvesting the income from securities arriving at maturity, which will keep its balance at around \$2.8 trillion.

External sector: further deterioration in export sales

QE2, by assisting in the depreciation of the dollar against major currencies (down by 15% against the euro, by 11% against the yen, and by 5% against the yuan) and therefore boosting competitiveness, has indisputably helped exports. But this did not benefit GDP growth or US external accounts, as recovery was accompanied by greater import demand both by volume and by value, boosted by the bill for energy imports. This took the US external deficit up by 25% over the 12 months to the end of April 2011, half of which was with China, which now holds \$1.1 trillion in US treasury bonds.

Household demand: still restrained

Essential for growth (70% of GDP in 2010), household demand should continue in 2012 the recovery consistently underway since mid-2009. It is nevertheless still vulnerable unfavourable factors, as was the case in the first half of 2011 (with fuel prices, overall inflation and budget uncertainties), given that the improvement in fundamentals (employment, wages, debt reduction) has been too modest to consolidate the recovery in confidence and consumer enthusiasm.

Businesses: shocks and uncertainties

The increase in activity and profits was accompanied by a fall in the number of insolvencies, but signals are still very mixed in the construction sector, while the catastrophe in Japan for a time upset the automotive sector, and a number of indicators (e.g., the ISM, output indicators) worsened over Q2. The situation has yet to consolidate and solidify into an acceleration in investment and hiring, but the growth outlook remains positive, while bank lending has returned to its highest levels for two and a half years.

Politics and budgets: pressures mount

The hard negotiations between Republicans, who took control of the House of Representatives in January, and Democrats, on reducing the federal debt, have rekindled political division. However, after months of deadlock, and against a backdrop of increasing pressures from the rating agencies, it is now vital – if the US is to avert a government shutdown at the start of August 2011 – to reach an agreement to raise the ceiling on debt, which already had risen to above its legal limit in mid-May (\$14.294 trillion). *_DN/ML*

Election timetable

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

Executive and legislature

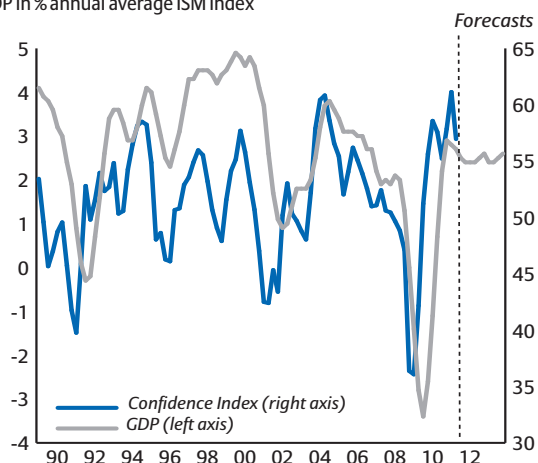
► **President:** Barack Obama

► **Senate (100 seats):** Democrats (51), Republicans (47), independents (2)

► **House of Representatives (435 seats):** Democrats (192), Republicans (243)

Advanced indicator of the economy

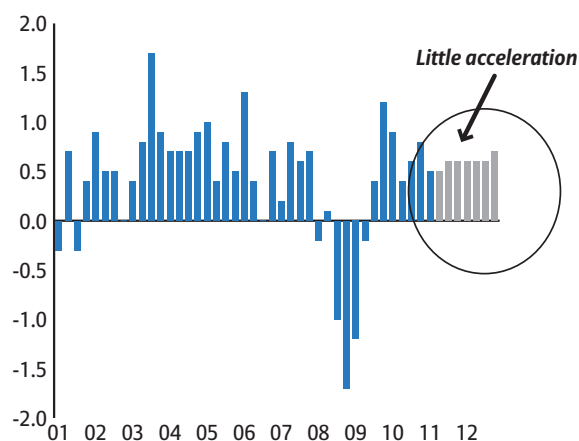
GDP in % annual average ISM index



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

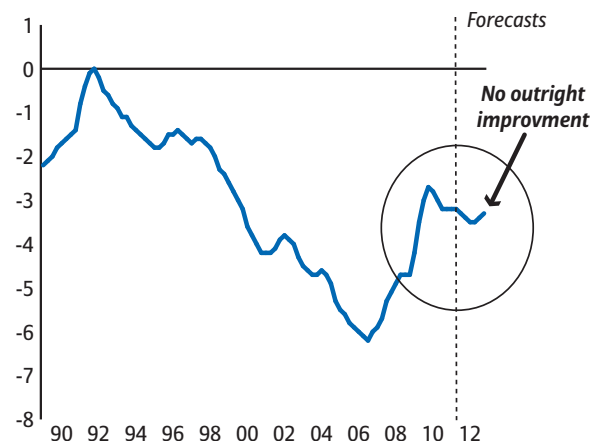
Trading partners

Country	Exports	Share of total
TOTAL	1,057	100 %
of which Euro zone	162	15.3 %
Canada	205	19.4 %
Mexico	129	12.2 %
China	70	6.6 %
Japan	51	4.8 %
United Kingdom	46	4.3 %
Country	Imports	Share of total
TOTAL	1,604	100 %
of which Euro zone	216	13.4 %
China	310	19.3 %
Canada	228	14.2 %
Mexico	178	11.1 %
Japan	98	6.1 %
Germany	73	4.5 %

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

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
Change over the period, unless otherwise indicated: * contribution to GDP growth ** USD billions ** Sources: IHS ■ Forecasts											
Global Insight, Euler Hermes forecasts											
UNITED STATES											
GDP	100%	-2.6	2.9	2.4	2.6	0.6	0.8	0.5	0.5	0.6	0.6
Consumer Spending	70%	-1.2	1.7	2.6	2.7	0.6	1.0	0.5	0.5	0.6	0.7
Public Spending	19%	1.6	1.0	-1.0	-0.7	1.0	-0.4	-1.5	0.0	0.1	0.0
Investment	13%	-18.3	3.9	5.4	8.2	0.4	1.7	0.3	1.8	1.5	1.8
Construction	3%	-22.9	-3.0	-1.5	4.7	-7.7	0.8	-0.5	0.7	0.5	0.7
Equipment	10%	-17.1	5.7	7.0	8.9	2.4	1.9	0.5	2.0	1.5	2.0
Stocks	*	1%	-0.4	1.4	-0.1	0.1	0.4	-0.9	0.3	0.0	0.0
Exports	13%	-9.5	11.7	8.1	8.3	1.6	2.1	1.9	2.1	1.9	1.9
Imports	16%	-13.8	12.6	5.5	9.1	4.0	-3.3	1.3	2.1	1.9	1.4
Net exports	*	-3%	1.1	-0.5	0.1	-0.4	0.8	0.0	-0.1	-0.1	-0.1
Current account	**		-377	-471	-525	-529					
Current account (% of GDP)			-2.7	-3.2	-3.4	-3.3					
Employment			-3.8	-0.6	0.6	0.9					
Unemployment rate			9.3	9.6	8.9	8.5					
Wages			3.0	2.4	2.1	2.7					
Inflation			-0.1	1.5	3.1	1.8					
General government balance	**		-1471	-1275	-1512	-1342					
General government balance (% of GDP)			-10.4	-8.7	-9.9	-8.4					
Public debt (% of GDP)			87	96	102	106					
Nominal GDP	**		14119	14660	15270	15982					

Canada

On course, after strong acceleration

Overview

Canada is one of the countries that best weathered the crisis. Its recession was shorter and on a lesser scale than elsewhere, and its recovery has been strong – at +6.1% over the seven quarters to the end of 2010, and continuing in Q1 2011 with a further 1% acceleration against the previous quarter. Helped by support from all components of end-user domestic demand, particularly household consumption, which showed resilience during the crisis, and public expenditure, Canada recovered more quickly and far exceeded its pre-crisis peaks (+6.9% at the end of March 2011), despite lower productivity and a return to a negative growth impulse from foreign trade. GDP growth prospects remain strong for 2011 (+2.8%) and 2012 (+2.4%), although a slowdown seems inevitable given continued further monetary normalisation, fiscal consolidation as well as moderating growth both worldwide and, particularly, in the US.

Monetary policy: a temporary status quo

After the beginning of monetary normalisation in 2010, via three successive interest rate hikes (from 0.25% to 1%), the period of status quo that followed until summer 2011, partly due to persistent appreciation in the Canadian dollar (especially against the US dollar), should soon come to an end. The Bank of Canada could well decide to resume rate increases, in line with the gradual absorption of excess capacities, the absence of inflationary threats (despite a temporary surge in prices due to energy costs and indirect taxes in the provinces), and the growth of household debt.

External sector: a loss of vigour

Although an undeniable engine of recovery (+13% by volume and 23% by value over seven quarters), exports have not as yet returned to their pre-crisis levels, despite the demand for commodities. Moreover, due to a loss of competitiveness arising from the strong Canadian dollar and increased wage costs, exports have quickly become unable to offset Canada's strong imports. The net growth impulse from foreign trade is expected to remain negative in 2011 (after -3.1% in 2010), before turning positive again in 2012.

Household demand: still solid

Household consumption and investment were strong over 2010 but now face several moderating factors: rising inflation in early 2011, increasing house prices, reduced fiscal stimuli, monetary tightening and even reduced lending in the face of mounting indebtedness. In the end, however, household demand will remain buoyant thanks to the beginnings of wage increases and especially thanks to continuation of the recovery underway in the employment market since at the end of 2009.

Businesses: on track

The recovery in activity, particularly in basic commodities, has already brought a revival in profits, a further

decline of insolvencies, a restoration in confidence and the beginnings of recovery in investment and employment, although not preventing a slight increase in capacity pressures. The moderating outlook and the rise of production costs should have only a braking effect on the trend, especially should the recovery in the credit market persist.

Politics and budgets: cutting expenditure

Bolstered by its clear victory in Canada's May parliamentary elections, the fourth in the space of less than seven years, the Conservative Party now has a big enough majority to roll out its programme, notably including a return to balancing the federal budget by 2014-2015. The clear improvement in the economic fundamentals should assist in the progressive achievement of this aim, notably via restraining public expenditure. [_ML](#)

Election timetable

► 2015: legislative elections

Executive and legislature

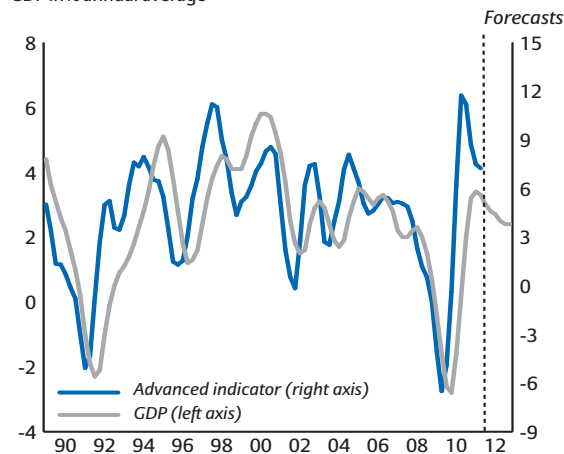
► **Governor General:** David Johnston (since October 2010)

► **Prime Minister:** Stephen Harper (since 2006)

► **House of Commons** (308 seats): Conservative Party (167), Liberal Party (34), New Democratic Party (102), Bloc Québécois (4), Independent (1)

Advanced indicator of the economy

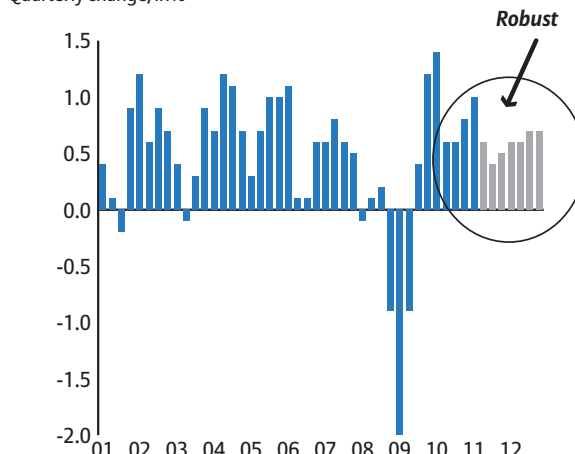
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

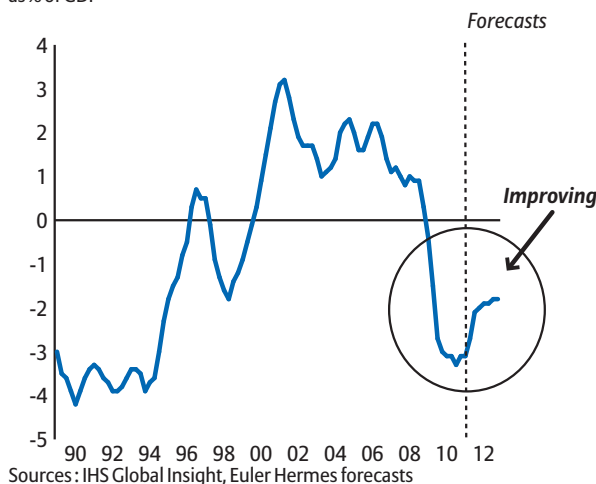
Country	Exports	Share of total
Total	316	100 %
of which Euro zone	162	51.4 %
United States	237	75.0 %
UK	11	3.4 %
China	10	3.1 %
Japan	7	2.3 %
Mexico	4	1.3 %

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

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

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

Sources: IHS Global Insight, Euler Hermes forecasts

CANADA	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
GDP	100%	-2.8	3.2	2.8	2.4	0.6	0.8	1.0	0.6	0.4	0.5
Consumer Spending	64%	0.4	3.3	2.0	2.3	0.7	1.1	0.0	0.4	0.4	0.5
Public Spending	25%	4.3	4.7	1.4	-0.3	0.7	0.8	0.1	0.0	-0.1	-0.1
Investment	19%	-16.6	8.4	7.8	2.3	2.8	1.9	2.9	1.2	0.7	0.4
Construction	11%	-15.0	6.9	6.0	1.3	0.9	2.2	2.5	1.0	0.5	0.3
Equipment	8%	-18.6	10.4	10.2	3.6	5.2	1.5	3.3	1.4	1.0	0.5
Stocks	*	2%	-1.4	1.5	-0.2	-0.1	0.4	-1.3	0.8	-0.6	0.0
Exports	34%	-13.8	6.4	5.6	5.0	-0.3	2.1	1.6	1.3	1.0	1.2
Imports	43%	-13.4	13.1	5.3	2.5	2.0	-0.1	2.2	0.6	0.6	0.6
Net exports	*	-9%	0.8	-3.1	-0.4	0.6	-1.0	0.8	-0.4	0.2	0.1
Current account	**		-45	-51	-34	-33					
Current account (% of GDP)			-3.0	-3.1	-2.0	-1.8					
Employment			-1.6	1.4	1.6	1.5					
Unemployment rate			8.3	8.0	7.6	7.1					
Wages			1.6	3.5	3.5	3.0					
Inflation			0.3	1.7	3.1	2.0					
General government balance	**		-84	-89	-71	-55					
General government balance (% of GDP)			-5.5	-5.5	-4.1	-3.0					
Public debt (% of GDP)			83	84	84	84					
Nominal GDP	**		1 529	1 625	1 728	1 820					

Japan

The catastrophe and the reconstruction efforts increase the challenges

Overview

The triple disaster of the historic earthquake, giant tsunami and the colossal nuclear accident triggered on March 11, 2011 dealt a major blow to the northeast of Japan and to the entire country. In addition to the high number of casualties – with more than 23,000 dead or missing – the country now faces a host of uncertainties and challenges on many fronts (economic, budgetary, political, energy-related, environmental, etc.). Admittedly, signs of recovery have already multiplied, but these remain insufficient, and the supply constraints (logistics, energy supplies, etc.) are easing only gradually. The economy will not avoid a sharp contraction, neither for the second quarter of 2011, for the third time running, nor for the full year (-1%) despite the start of a revival over H2. Reconstruction efforts will fuel GDP growth especially in 2012 (+2.7%), notably via public investment, but the scale and timing of this continues to divide Japan's political parties and raises concerns over spiralling debt.

Monetary policy: durably accommodating

The Bank of Japan quickly took local emergency measures (via financial institutions in the regions affected) and national measures (by increasing its securities purchases) in order to ensure financing of the economy. It also ventures at times into the foreign exchange market, liaising with the G7, to limit the surge in the yen in the face of anticipated capital repatriation movements. Despite a temporary surge in inflation (arising from energy prices, and from supply problems, etc.), the Bank of Japan is likely to durably maintain its accommodating monetary policy, keeping its key rate at the low point reached at the end of 2008 (0% to 0.1%).

External sector: brought to a halt

The revival in Japanese exports – rapid in Q2 2009 and sustained over six quarters (+45%) – was an essential factor in Japanese economic recovery (with a net growth impulse of 80%), even though exports did not return to their pre-crisis peak. But on the heels of the collapse in sales that followed the catastrophe (-15% by value in March and April), export recovery can only accelerate as production line disruptions are rectified. The net growth impulse will become positive again only over the course of 2012.

Household demand: in shock

The catastrophe further clouded the short-term outlook on consumer spending, which had already shown initial signs of easing after being boosted (+1.9% in 2010) by government stimulus measures. The human shock, alongside the radioactivity levels, the drop in confidence, the temporary surge in inflation, and political arguments over reconstruction and financing are all factors that will postpone a revival in consumption until 2012 (after -1.1% in 2011).

Businesses: continued constraints

The fall in activity was brutal, with the destruction and damage suffered locally by facilities, infrastructure and

equipment all mirrored on the national level through power shortages and supply failures, both of which will be rectified only over time: the recovery in activity will be gradual. Reconstruction efforts should nonetheless fuel private and public investment from H2 2011 and in 2012.

Politics and budgets: uncertainties on both fronts

Following on in the wake of Japan's recovery plans, emergency relief and reconstruction plans could be new order of the day: two have already been adopted (for 4 trillion yen in May, and for 2 trillion in July), and a third is being prepared, against simple reconstruction costs exceeding 13 trillion. However, political differences have increased, especially over the funding of supplementary budgets, and more broadly over the course of public finances and the strategy of budget consolidation by 2020, while public debt, although essentially held by domestic agents, stands at 200% of GDP. After considerable criticism and a fall in popularity, Japanese Prime Minister Naoto Kan announced that he would step down if the legislature moved to pass three key bills. [_ML](#)

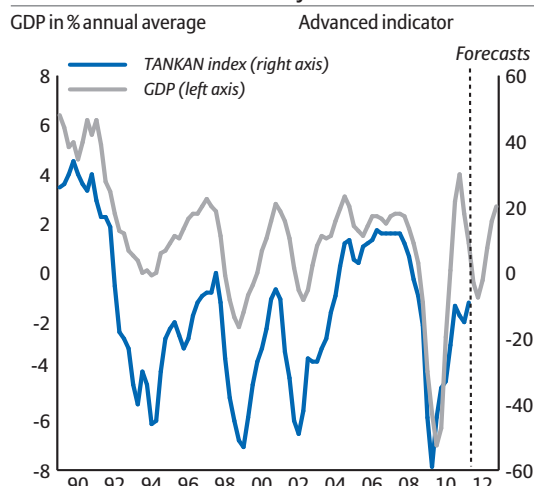
Election timetable

- ▶ 2013: elections to the House of Representatives
- ▶ 2016: elections to half of the seats in the House of Councillors

Executive and legislature

- ▶ **Empire, Head of State:** Emperor Akihito (since 1989)
- ▶ **Prime Minister:** Naoto Kan (from June 2010)
- ▶ **House of Representatives** (Shugi-in, 480 seats): Democratic Party of Japan (DPJ, 308 seats), Social Democratic Party (SDP, 7), People's New Party (PNP, 3), Liberal Democratic Party (LDP conservatives, 119), New Komeito Buddhist conservatives (NKP, 21), Japanese Communist Party (JCP, 9), others (13)
- ▶ **House of Councillors** (Sangi-in, 242 seats): DPJ (106), LDP (84), New Komeito Buddhist conservatives (NKP, 19), Your Party (11), others (22), Vacant (1)

Advanced indicator of the economy



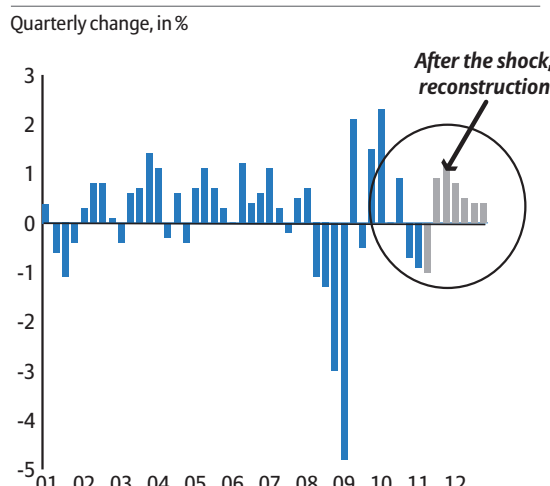
Sources : IHS Global Insight, Euler Hermes forecasts

Trading partners

Country	Exports	Share of total
Total	582	100 %
of which Euro zone	53	9.1 %
China	110	18.9 %
United States	95	16.4 %
South Korea	47	8.1 %
Hong Kong	32	5.5 %
Thailand	22	3.8 %
Country	Imports	Share of total
Total	552	100 %
of which Euro zone	47	8.6 %
China	123	22.2 %
United States	60	11.0 %
Australia	35	6.3 %
Saudi Arabia	29	5.3 %
U.A.E.	23	4.1 %

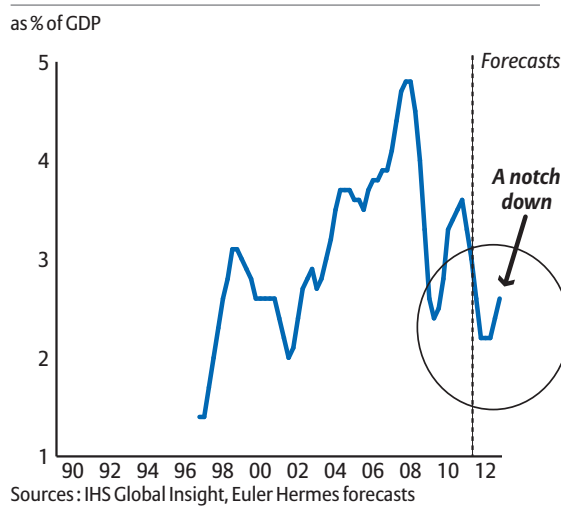
*USD billions: exports (FOB), imports (CIF)
 12 month cumulative figures to end of December 2009
 Sources : IHS Global Insight, IMF

GDP



Sources : IHS Global Insight, Euler Hermes forecasts

Current account balance



Sources : IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

Change over the period, unless otherwise indicated: * contribution to GDP growth ** Yen trillions

Sources : IHS Global Insight, Euler Hermes forecasts

	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
JAPAN											
GDP	100%	-6.3	4.0	-1.0	2.7	0.9	-0.7	-0.9	-1.0	0.9	1.2
Consumer Spending	57%	-2.0	1.9	-1.1	1.3	0.8	-1.0	-0.6	-0.6	0.4	0.5
Public Spending	23%	4.3	1.3	2.4	3.0	-0.1	-0.7	0.6	1.2	2.0	1.5
Investment	16%	-15.8	0.8	1.2	7.3	1.1	0.4	-0.9	-1.6	2.5	3.1
Construction	2%	-10.1	-8.4	6.2	9.4	1.6	2.9	1.0	0.5	2.5	4.0
Equipment	14%	-16.7	2.4	0.4	7.0	1.0	0.0	-1.3	-2.0	2.5	3.0
Stocks	*	0%	-1.1	0.4	-0.4	0.1	0.4	0.0	-0.4	-0.1	0.1
Exports	15%	-24.2	24.1	0.3	6.0	1.6	-0.8	0.7	-3.5	0.5	2.5
Imports	11%	-15.4	9.8	6.6	9.0	2.9	-0.3	1.9	0.0	2.8	3.6
Net exports	*	5%	-2.2	2.1	-0.7	-0.1	-0.1	-0.1	-0.6	-0.2	0.0
Current account	**		13	17	10	13					
Current account (% of GDP)			2.8	3.6	2.2	2.6					
Employment			-6.1	-0.1	-0.1	0.2					
Unemployment rate			5.1	5.0	4.5	4.2					
Wages			-2.6	-1.3	0.3	0.3					
Inflation			-1.5	-0.6	0.3	0.2					
General government balance	**		-41	-39	-42	-41					
General government balance (% of GDP)			-8.7	-8.1	-9.0	-8.5					
Public debt (% of GDP)			185	193	205	209					
Nominal GDP	**		471	479	469	481					

Euro zone

The debt crisis is exacerbating economic disparities and political tensions

Overview

The Eurozone has confirmed its strengths but also its weaknesses. It again consolidate its exit from recession with a sharp acceleration in Q1 2011, correspondingly increasing the total recovery achieved since mid-2009 (+3.5%) and the base effect for growth for 2011 (+1.5%). However, this renewed strength partly was due to temporary factors (weather conditions at the end of 2010) that offer no further at a time when indices and business surveys have all pointed towards a loss of steam in Q2. Besides the deceleration in global demand (which had fuelled the recovery), domestic demand remains constrained: the movement of fiscal consolidation plus moderating household consumption (due to employment, wages and inflation) are brakes on the recovery in investment. Moreover, this dynamic is result from strong differences between Eurozone member countries. Only Germany, Austria and Belgium have returned to their pre-crisis levels of quarterly GDP, slightly ahead of France and the Netherlands, but trailed far more by Spain and Italy, and even further by Portugal and Greece, these latter two remaining in recession in 2011.

Monetary policy: modest tightening

Acting ahead of its American and British counterparts, the ECB began its process of monetary normalisation in 2011, hiking lead rates once in April and once in July, to 1.50%. One aim is to contain inflationary expectations at a time when increases in commodity and food prices pushed inflation beyond the target figure for since the end of 2010 (2.7% per year in June). This inflationary drift should, however, lessen by 2012, which militates for a very gradual calendar of rate hikes by the ECB in the face of the fragility and heterogeneity of growth across the Eurozone.

External sector: slowdown in sight

Exports will continue supporting recovery in 2012, after a sharp recovery since the worst of the crisis, both by volume (+17%) and by value (+25%), which proved key to GDP recovery, for which the sector (and especially industrial output) made a net contribution of 56%. However, export growth should ease significantly with the slowdown of world trade and the delayed effects of the appreciation in the euro. The contribution of net exports to growth may therefore diminish, despite the easing in imports resulting from domestic demand and inventories.

Household demand: lacking support

While household demand played a vital role in the recovery (accounting for 58% of GDP in 2010), it is not expected to accelerate before 2012 (+1.1% expected in 2011, against an average of 2% per year between 1996 and 2008). The return of confidence levels to their levels of 2004-2006 of factors has been or will continue to be hampered by factors including the rise of inflation, fiscal consolidation measures, the difficult recovery in the jobs market, and a persistently high level of unemployment (9.9% in June) that limits any salary increases.

Businesses: partly recovered, still cautious

The revival in activity continued into spring 2011, especially in industry and services (construction remains far behind), facilitating the restoration of profit margins and businesses' financial capacities. The slowdown suggested by the economic indices (order books) and surveys (PMI), should not threaten the recovery in investment, nor its pace, at a time when capacity utilisation rates continue to improve and while financing conditions remain good. Recruitment activity should be more dynamic in 2012.

Politics and budgets: maximum tensions

A year after the first Greek rescue operation, and despite several advances (such as the European Financial Stability Facility and its successor from 2013, the European Stability Mechanism), the Eurozone remains mired in the problems of finding a long-term solution of Greek debt and, in so doing, avoiding a spreading crisis of confidence. Between the delays and the din on one side, and pressures from financial markets and rating agencies on the other, the crisis reached its peak mid-July: the Eurozone is risking not longer only its credibility. [ML](#)

Election timetable

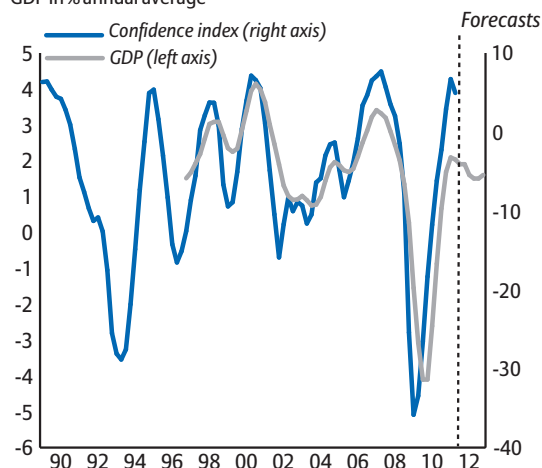
- ▶ 1st half of 2011, Hungary
- ▶ 1st half of 2010, Denmark
- ▶ 2nd half of 2011, Poland

Executive and legislature

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

Advanced indicator of the economy

GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

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

Country	Imports	Share of total
Total	3,434	100 %
UE à 27	2,200	64.1 %
UE à 15	1,980	57.7 %
UEM	1,692	49.3 %
Asie	420	12.2 %
Amérique du nord	176	5.1 %
dont USA	162	4.7 %

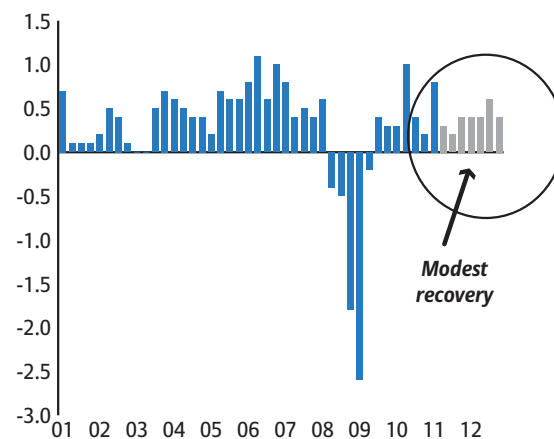
*USD billions: exports (FOB), imports (CIF)

12 month cumulative figures to end of December 2009

Sources: IHS Global Insight, IMF

GDP

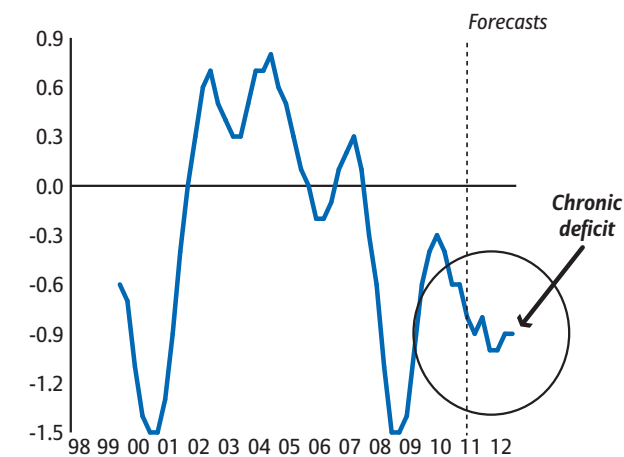
Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

Sources: IHS Global Insight, Euler Hermes forecasts

EURO ZONE	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
GDP	100%	-4.1	1.7	1.9	1.6	0.4	0.2	0.8	0.3	0.2	0.4
Consumer Spending	58%	-1.2	0.8	1.1	1.2	0.2	0.3	0.3	0.3	0.2	0.2
Public Spending	21%	2.5	0.3	0.5	-0.2	0.2	-0.1	0.8	-0.3	-0.2	-0.2
Investment	19%	-11.6	-0.9	2.9	2.5	-0.2	-0.1	2.1	0.0	0.5	0.5
Construction	6%	-7.4	-3.9	1.4	1.4	-0.2	-1.2	2.5	-0.8	0.3	0.4
Equipment	14%	-13.4	0.4	3.9	3.5	0.1	0.6	1.8	0.7	0.6	0.7
Stocks	*	0%	-0.6	0.5	0.2	0.1	-0.1	0.0	0.1	0.0	0.0
Exports	45%	-13.1	11.1	7.1	5.6	1.7	1.6	1.8	1.4	1.2	1.3
Imports	43%	-11.7	9.3	6.4	5.1	1.2	1.3	1.9	1.4	1.1	1.1
Net exports	*	2%	-0.8	0.8	0.4	0.4	0.2	0.0	0.0	0.1	0.1
Current account	**		-51	-56	-73	-84					
Current account (% of GDP)			-0.6	-0.6	-0.8	-0.9					
Employment			-1.8	-0.4	0.3	0.6					
Unemployment rate			9.2	9.8	9.5	9.0					
Wages			1.7	0.9	1.4	1.8					
Inflation			0.3	1.6	2.6	1.8					
General government balance	**		-552	-536	-407	-356					
General government balance (% of GDP)			-6.2	-5.8	-4.3	-3.6					
Public debt (% of GDP)			80	84	85	86					
Nominal GDP	**		8,936	9,167	9,490	9,807					

Germany

Driving the European economy

Overview

The German economy's strong recovery is consolidating, with a clear lead over other European countries in Q1 2011 (+1.5% GDP in Germany, against +0.8% for the EU), and this is not only due to marked climate-related ups and downs in the construction market. Thanks to the clear upturn seen since early 2009 (+7.3%), Germany's economy has now recovered to its Q1 2008 peaks, with a still growing contribution from domestic demand, fuelled both by the impact of catching up in construction and services, and by always significant external demand. With its health restored, the German economy continues to enjoy good medium-term prospects, although these have been reduced, to a slight degree, by events in Japan for the short term, and, to a greater degree, by the world economic slowdown. Despite a slowing, probably from H2 2011, and despite a number of risks, Germany's GDP growth promises to be again solid in 2011 (+3.2%, after +3.5% in 2010), followed by a more modest +1.9% in 2012.

External sector: record levels

Germany's foreign trade sector is still in contention for further successes. Exports and imports not only posted record performances in March, respectively at close to 100 and 80 billion euros, but they also, for Q1 overall, surpassed their pre-crisis volumes thanks to strong growth (+2.3% and +1.5% respectively). This was particularly true for exports to countries outside the Eurozone, including China and Russia, helping to bring a net positive growth impulse (0.5 points) for the fourth quarter running, and a surge in related industrial output. Despite the world slowdown, the outlook remains good, with exports expected to rise by a further 8% in 2011 and 5% in 2012.

Household demand: finally rising

Household consumption expenditure began to rise in early 2010, posting a positive contribution to growth for five consecutive quarters. Expenditure benefits from very favourable developments in the jobs market, well illustrated by the fall in the unemployment rate to its lowest level since 1991 and by the rise in real disposable income, which continues to increase despite the acceleration in inflation. On this solid basis, private consumption should consolidate, rising by 1.6% in 2011 and by 1.5% in 2012, with no massive drain on household savings.

Businesses: investment takes the reins

Driven by good exports, investment in machinery and capital goods had shown an already significant recovery up to Q1 2011, although still not enough to offset its previous decline. However, given the outlook on the demand front, the rise in capacity utilisation rates, the gradual restoration of profitability, and the return to good credit conditions, we should see a continuation of the trend in investments. Construction, for its part, should pursue a more modest recovery. Overall, we should see a noticeable increase in investment – by 8% in 2011 and by 5.4% in 2012.

Politics and budgets: clear improvements

The improved macroeconomic situation allows for a faster than expected consolidation in public finances. Thanks in particular to greater tax revenues, Germany's public deficit should continue to shrink and fall to below the Maastricht Treaty limit (3% of GDP), dropping to close to 2% in 2011, after 3.3% in 2010. However, the need for fiscal consolidation remains intact, given that public debt rose sharply in 2010, due to stimulus measures taken in response to the crisis, for the first time exceeding 2 trillion euros (83.2% of GDP). Hence, we expect public debt to come down only gradually, to around 80% by 2012, against a Maastricht Treaty threshold of 60%. [_RG](#)

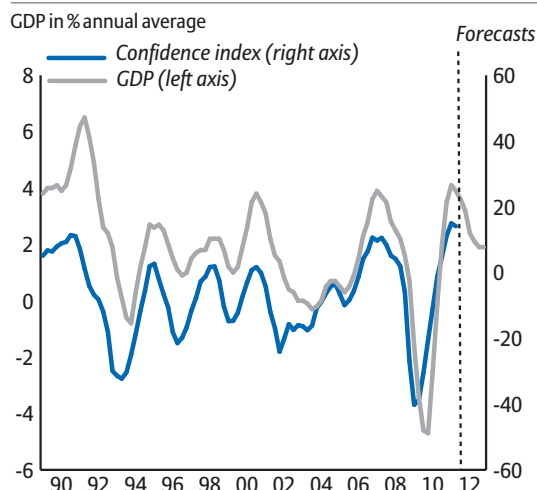
Election timetable

- ▶ 2011 : two state elections in September (*Mecklenburg-Vorpommern and Berlin*)
- ▶ 2012 : one state election in May (*Schleswig-Holstein*)
- ▶ Autumn 2013: legislative elections

Executive and legislature

- ▶ **Federal Republic**
- ▶ **Federal President:** Christian Wulff (CDU)
- ▶ **Chancellor:** Angela Merkel (CDU), heading CDU-CSU-FDP coalition
- ▶ **Bundestag** (622 seats): CDU-CSU (239), FDP (93), SPD (146), Die Linkspartei (76), Greens (68).
- ▶ **Bundesrat** : composed of members delegated by their respective state governments

Advanced indicator of the economy



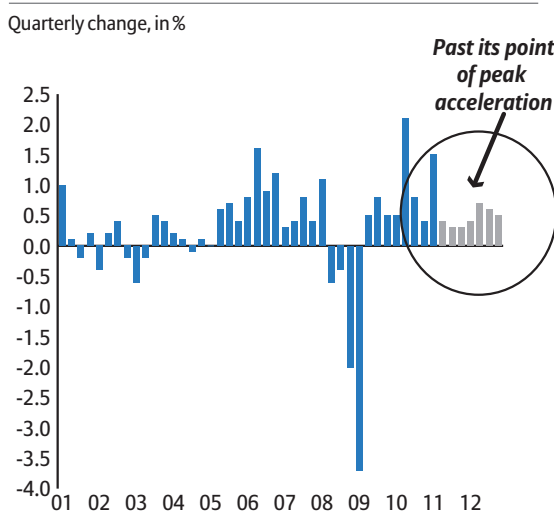
Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

Country	Exports	Share of total
TOTAL	1,122	100.0%
of which, Euro zone	470	41.9%
France	114	10.1%
United States	75	6.7%
Netherlands	75	6.6%
UK	74	6.6%
Italy	71	6.3%
Country	Imports	Share of total
TOTAL	931	100.0%
of which, Euro zone	419	44.9%
Netherlands	118	12.7%
France	77	8.3%
Belgium	67	7.2%
China	64	6.9%
Italy	55	5.9%

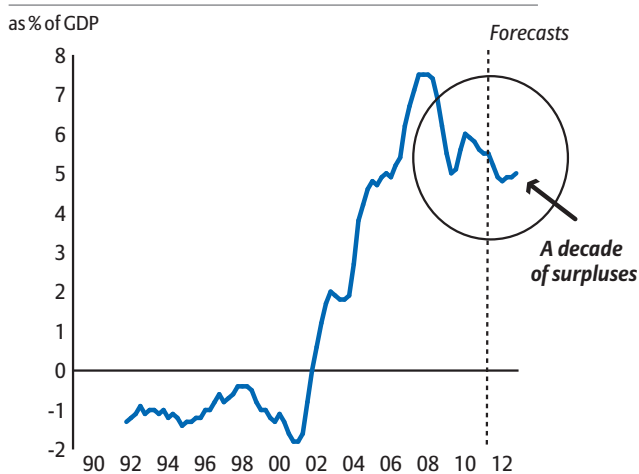
*USD billions: exports (FOB), imports (CIF)
12 month cumulative figures to end of December 2009
Sources: IHS Global Insight, IMF

GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Current account balance



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

GERMANY	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
GDP	100%	-4.7	3.5	3.2	1.9	0.8	0.4	1.5	0.4	0.3	0.3
Consumer Spending	56%	-0.1	0.4	1.6	1.5	0.3	0.6	0.4	0.3	0.2	0.2
Public Spending	20%	2.9	1.9	1.6	1.0	0.8	-0.2	1.3	0.0	0.2	0.2
Investment	20%	-10.0	5.7	7.9	3.8	1.5	-0.1	5.0	0.0	0.9	0.9
Construction	9%	-1.3	2.6	5.1	2.4	-0.5	-2.6	6.2	-1.6	1.1	1.1
Equipment	10%	-17.2	8.7	10.4	5.1	3.5	2.2	4.0	1.5	0.7	0.7
Stocks	*	-1%	0.1	0.6	-0.5	0.1	-0.2	-0.5	0.4	0.0	0.0
Exports	51%	-14.3	14.4	8.0	5.4	1.4	1.8	2.3	1.5	0.9	0.8
Imports	45%	-9.4	12.8	6.7	6.2	0.8	0.8	1.5	2.2	1.1	1.0
Net exports	*	5%	-3.2	1.2	1.0	-0.1	0.3	0.5	-0.2	0.0	0.0
Current account	**		135	139	128	135					
Current account (% of GDP)			5.6	5.6	4.9	5.0					
Employment			0.0	0.5	1.0	0.7					
Unemployment rate			7.8	7.4	6.9	6.6					
Wages			2.4	1.7	1.9	2.5					
Inflation			0.3	1.3	2.3	1.9					
General government balance	**		-72	-82	-55	-43					
General government balance (% of GDP)			-3.0	-3.3	-2.1	-1.6					
Public debt (% of GDP)			74	83	82	81					
Nominal GDP	**		2,395	2,494	2,603	2,714					

France

Recovery is continuing but still facing obstacles

Overview

The sharp acceleration in the French economy in Q1 2011 is good news, consolidating its recovery (+3.2% since Q1 2009) and correspondingly increasing the base effect for growth (1.5%) for 2011. However, this is partly due to non-renewing factors (auto scrappage premiums, inventory building, and a bounce-back in output after a fourth quarter of 2010 disrupted by strikes and bad weather conditions). Moreover, signs of easing increased in the second quarter of 2011, including on the consumption side. The slowdown should prove temporary, but it should give way to only modest growth to the end of the year (+0.3% per quarter or 1.8% for the full year), despite good investment and a recovery in employment. The year 2012 should see a strengthening in growth (averaging +0.5% per quarter), despite the slowdown in public spending.

External sector: becoming more neutral over the quarters

After a sharp rebound in 2010 (+9.4%), confirmed over Q1 2011, exports should gradually respond to the easing in world trade, and particularly to the weakening of demand from European partners with austerity programmes in force, followed by a slight recovery in 2012. A fairly similar picture will be seen for domestic demand, which will benefit on the import side (28% of GDP in 2010) and should limit the size of the negative growth impulse from foreign trade in coming quarters (but not on the annual figures). France's trade and current account deficits should nonetheless continue to increase.

Household demand: lack of confidence

With the end of the stimulus factors (auto scrapped premiums, the switch to digital television, etc.), the surge in prices (energy and food prices in the early months of the year, plus the traditional increases on July 1) and the announcement of the rise in unemployment in May, consumer spending may suddenly slacken. An improvement is expected, however, first thanks to a consolidation in employment, after several months of good performances in temporary employment and then a modest but positive rise in wages. In the end, however, the pace of household demand may continue to be restrained by the uncertainties affecting consumer confidence and maintaining their reluctance to draw on their savings (16% of disposable income).

Businesses: still cautious

After a sharp rise into Q1 2011, the business climate largely eased back over Q2 in all major sectors, although remaining at levels still in line with positive albeit slower GDP growth. The easing is confirmed by a number of economic indicators. Even so, this more gradual rise in activity and in capacity utilisation rates, in a still good financing environment, should continue to fuel the revival in investments begun in 2010 (although focused on productivity). Construction is expected to follow, with an increase in housing starts.

Politics and budgets: consolidation fairly in line with commitments

The year 2010 ended with a greater reduction in the deficit (finally established at 7% of GDP) higher than initially forecast in the draft Budget Law. The year 2011 will be helped by a technical effect (the end of stimulus measures) and by stronger nominal GDP growth than expected last year. The government's deficit target (revised from -6% to -5.7%), however, might not be met, should GDP growth in the end fall short of the forecast growth figure of 2%. The same applies for 2012, an election year. Such a path of public finances remains relatively sustainable, but any drift seen to reflect government inability to meet its commitments may stoke concerns in the financial markets, in the event of any worsening and spread of the crisis over sovereign debt. [_KB/MI/ML](#)

Election timetable

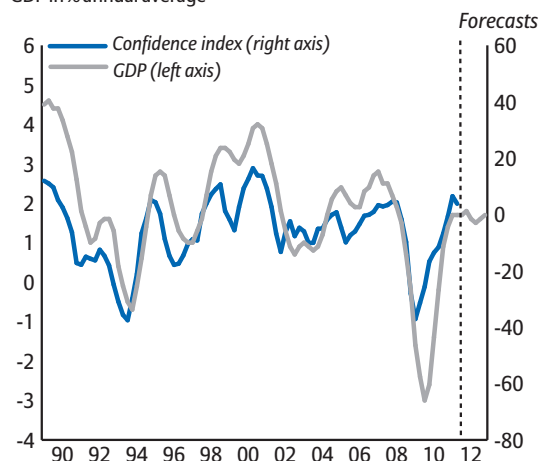
- ▶ September 2011: Senatorial election
- ▶ 2012: presidential election
- ▶ 2012: legislative elections

Executive and legislature

- ▶ **President:** Nicolas Sarkozy
- ▶ **Prime Minister:** François Fillon
- ▶ **National Assembly** (577 seats): UMP (313), Various parties of the right (9), New Centre (22), Socialist Party (186), Communist Party (16), PRG (7), others (6)

Advanced indicator of the economy

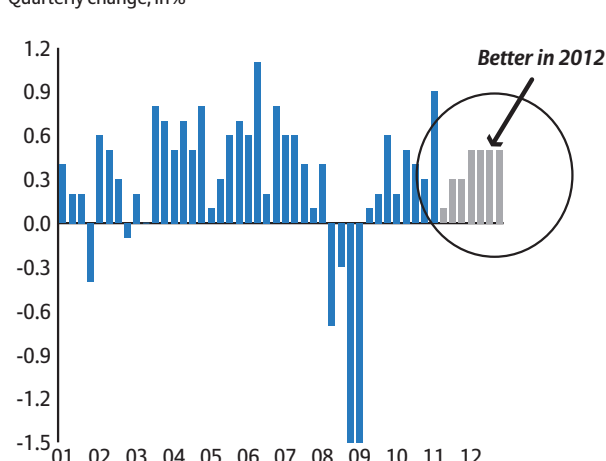
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

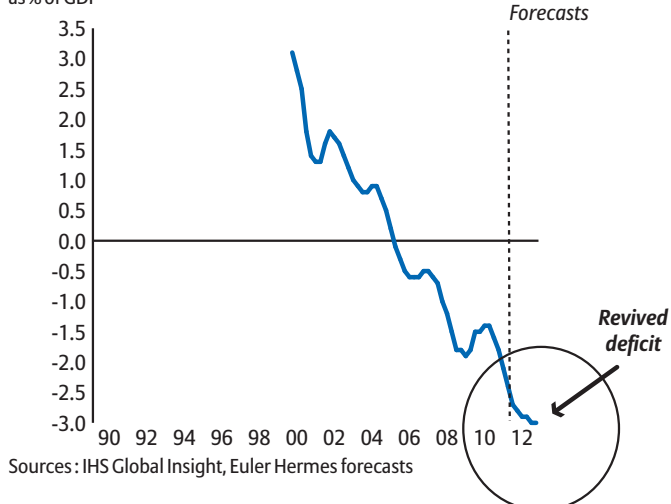
Trading partners

Country	Exports	Share of total
Total	484	100 %
of which, Euro zone	233	48.2 %
Germany	77	15.9 %
Italy	40	8.2 %
Spain	38	7.8 %
Belgium	36	7.4 %
UK	34	7.0 %
Country	Imports	Share of total
Total	560	100 %
of which, Euro zone	321	57.3 %
Germany	109	19.4 %
Belgium	65	11.6 %
Italy	45	8.0 %
Netherlands	40	7.1 %
Spain	37	6.7 %

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

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

Sources: IHS Global Insight, Euler Hermes forecasts

FRANCE	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
GDP	100%	-2.6	1.4	1.8	1.7	0.4	0.3	0.9	0.1	0.3	0.3
Consumer spending	59%	0.2	1.4	1.6	2.0	0.5	0.4	0.4	0.3	0.4	0.4
Public spending	25%	2.3	1.2	0.8	0.4	0.3	0.1	0.4	0.1	0.1	0.1
Investment	19%	-8.8	-1.4	3.1	3.0	0.9	0.5	1.2	0.4	0.6	0.6
Construction	5%	-8.8	-1.4	2.4	3.4	1.9	0.9	-0.2	0.6	0.6	0.6
Equipment	14%	-8.9	-1.2	3.3	2.8	0.5	0.4	1.8	0.2	0.5	0.5
Stocks	*	0%	-1.3	0.5	0.0	0.5	-0.3	0.7	0.0	0.0	0.0
Exports	26%	-12.2	9.4	6.2	6.7	2.0	0.7	1.8	1.3	1.4	1.4
Imports	28%	-10.6	8.3	8.3	6.8	4.3	-0.4	3.0	1.7	1.6	1.5
Net exports	*	-2%	-0.2	0.1	-0.7	-0.2	0.3	-0.4	-0.1	-0.1	-0.1
Current account	**		-29	-34	-55	-62					
Current account (% of GDP)			-1.5	-1.8	-2.8	-3.0					
Employment			-1.4	0.1	0.9	0.9					
Unemployment rate			9.5	9.8	9.4	8.9					
Wages			1.4	1.9	1.3	2.3					
Inflation			0.1	1.5	2.0	1.6					
General government balance	**		-144	-135	-117	-111					
General government balance (% of GDP)			-7.6	-7.0	-5.9	-5.4					
Public debt (% of GDP)			78	86	88	90					
Nominal GDP	**		1,890	1,931	1,988	2,048					

Italy

A slippery slope

Overview

The recovery in activity continues, but the slope could become more slippery with the growing tensions over sovereign debt. Our central forecast remains one of modest growth in the medium term (+0.9% in 2011 and +1% in 2012), after a slowdown in Q1 2011, largely due to stocks. This recovery should arise more, first, from domestic demand first, and then, gradually, from the external trade sector, via slowing imports. The private sector, with a relatively low rate of indebtedness for the Eurozone, should be the main actor in this. Households should keep increasing their spending, by cutting their rate of savings and by recourse to credit. As for businesses, with a recovery in revenues in 2010 under their belts, they should continue their investment expenditure. The major risk will be on the public sector front, with the Italian government having to continue efforts to reassure the financial markets.

External sector: a potential source of growth

Italy's foreign trade sector has been in structural deficit since 2003, and reversing the trend will take time. A gradual improvement should, however, arise through a slowing in the rate of import growth, given the slow pace of consumption. Exports will be more dynamic, despite the risks of a lessened performance due, on the one hand, to the process of de-industrialisation undertaken in the decade prior to the crisis: the industrial sector (excluding energy) lost 4 percentage points of value added, and due, on the other hand, to the impact of increased wage costs.

Household demand: only just positive

In the short term, household demand should be supported by a lower savings rate and by recourse to credit, the latter

still possible due to the relatively low indebtedness of Italian households. In the more medium term, household demand should benefit from improving fundamentals in the employment market: Italy's unemployment rate of 8.8% is lower than the Eurozone's 9.9%, reflecting a better resilience during the crisis, and job creation is expected to gradually resume. In this situation, price constraints (high inflation) will continue to weigh on purchasing power growth: consumption is expected to continue growing, but at a slower pace of 0.8% in 2011 and 0.7% in 2012.

Businesses: slow improvement

For most key sectors (apart from construction, still in the red), the trend is fairly positive as reported in quarterly national accounts. Similarly, the factors supporting continuation of the investment cycle remain positive: margin rates nationally rose by 0.3 points since the end of 2009; capacity utilisation rates in industry continue to rise (at 74.3% in June), nearing the long-term average (75.4%); and confidence indicators have clearly improved, despite a noticeable drop over Q2. Overall, the outlook is improving, but only hesitantly, for businesses.

Politics and budgets: the major risk

After its recent losses, the Berlusconi government has been weakened on two fronts. Domestically, it needs to show its ability to maintain a stable political and

social environment despite facing strong opposition. On the external front, it needs to reassure international investors by proving its commitment to fiscal consolidation. With a public debt of around 120% of GDP, Italy is in the second division in the rankings of European countries. The relative confidence enjoyed by Italy in the markets, notably because of its relatively low public deficit (at 4.6% of GDP, versus 6% for the Eurozone) and due also to its low private sector debt, is being called into question by having its bond ratings placed under review by rating agencies (Moody's and Standard & Poor's), stoking concerns over Italian debt. The adoption in late June and early July of further consolidation measures (€48 billion in savings over four years) should ease the financial pressures. Already approved as a matter of urgency by the country's legislature, it still needs to be judged as credible in the face of Italy's limited growth prospects, and for the short-term pressures surrounding Greek and Portuguese sovereign debt to become normalised and not spread further. [_MI](#)

Election timetable

► 2013: Parliamentary and presidential elections

Executive and legislature

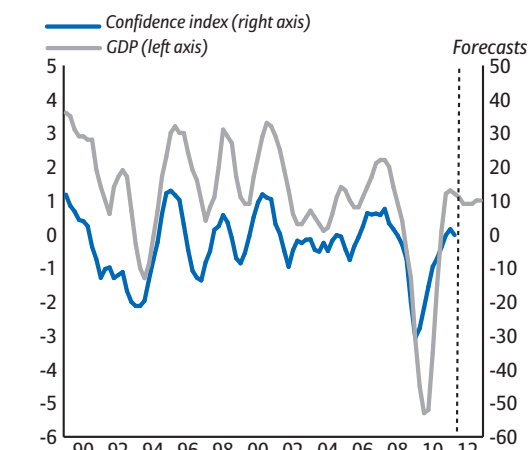
► **Prime Minister:** Silvio Berlusconi (People of Freedom, 29 April 2008)

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

► **Senate** (315 seats): Right, 174 seats; left, 132 seats; Others: 9 seats

Advanced indicator of the economy

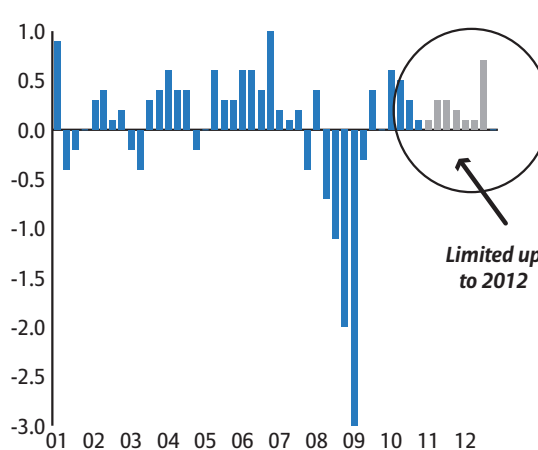
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

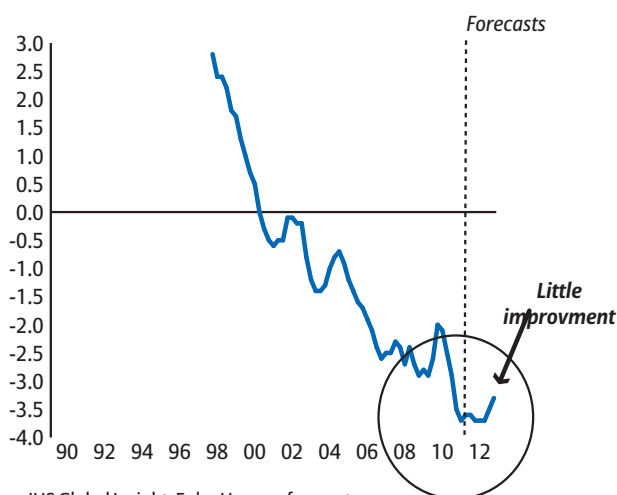
Trading partners

Country	Exports	Share of total
Total	405	100 %
of which, Euro zone	172	42.6 %
Germany	51	12.6 %
France	47	11.6 %
United States	24	5.9 %
Spain	23	5.7 %
UK	21	5.1 %
Country	Imports	Share of total
Total	410	100 %
of which, Euro zone	185	45.1 %
Germany	68	16.7 %
France	36	8.8 %
China	27	6.5 %
Netherlands	23	5.6 %
Spain	18	4.3 %

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

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

Sources: IHS Global Insight, Euler Hermes forecasts

	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
ITALY											
GDP	100%	-5.2	1.2	0.9	1.0	0.3	0.1	0.1	0.3	0.3	0.2
Consumer Spending	61%	-1.8	1.0	0.8	0.7	0.4	0.3	0.2	0.1	0.1	0.1
Public Spending	21%	1.0	-0.6	-0.3	-0.6	-0.3	-0.6	0.5	-0.3	-0.1	-0.2
Investment	20%	-12.0	2.3	1.1	2.7	0.6	-0.8	0.1	0.6	0.6	0.8
Construction	9%	-8.6	-3.7	0.2	0.4	1.0	-1.2	0.4	0.1	0.2	0.3
Equipment	10%	-15.1	8.5	2.0	4.7	0.3	-0.5	-0.2	1.0	1.0	1.2
Stocks	*	1%	-0.7	0.8	0.8	0.5	0.9	-0.3	0.2	0.0	0.0
Exports	26%	-18.4	8.9	6.7	6.0	2.8	0.4	1.4	1.4	2.3	2.0
Imports	28%	-13.8	10.3	7.6	5.1	4.5	2.8	0.7	1.4	1.6	1.6
Net exports	*	-2%	-1.2	-0.5	-0.4	0.1	-0.5	-0.7	0.0	0.1	0.1
Current account	**		-30.3	-53.5	-59.0	-54.6					
Current account (% of GDP)			-2.0	-3.5	-3.7	-3.3					
Employment			-1.5	-0.7	0.0	0.5					
Unemployment rate			7.8	8.4	8.7	8.2					
Wages			3.1	2.0	2.2	2.0					
Inflation			0.7	1.6	2.7	1.9					
General government balance	**		-82.0	-71.2	-65.3	-55.7					
General government balance (% of GDP)			-5.4	-4.6	-4.1	-3.4					
Public debt (% of GDP)			116.1	119.0	119.8	120.5					
Nominal GDP	**		1,519	1,548	1,593	1,639					

Spain

Not yet out of the woods

Overview

The trend is still weak: recovery is underway, but GDP growth is sluggish. Domestic demand has deteriorated (at 90% of its 2008 peak) and should remain so in the short term, due to weak domestic fundamentals. Household consumption (59% of GDP in 2010) suffers from record unemployment (a fifth of the workforce) and from negative real wages. Investment is held back by the lacklustre outlook, particularly in construction. Budgetary levers can no longer be used, with Spain under the microscope of financial markets and under pressure from European institutions to consolidate its public finances. Foreign trade, which helped soften the blows that came during the crisis, is the only genuine engine available to assist recovery. In this environment – and apart from any new financial shocks (worsening of market pressures, as in the cases of Greece and Portugal) and apart from any social shocks (continued social protests) – the Spanish economy should continue recovering, but at a much lower rate of growth (+0.7% in 2011 and +1% in 2012) than before the crisis (+3.5% over the previous decade).

External sector: the engine of recovery

The external component is key to revival in GDP growth, but it remains fragile, helped up to now by much slower growth in imports (in line with the erosion in domestic demand) than in exports. Structurally, the country is still paying for the excesses of the pre-crisis period (a surge in unit wage costs compared to its main trading partners and competitors). However, a paradigm shift is taking shape, with the current situation showing a relative improvement in competitiveness (a fall in payrolls and a rise in productivity), alongside recovery

in the industrial sector and an increase in the number of agents involved in exports (+2% between 2009 and 2010).

Household demand: weak but holding

Household demand is growing only very slightly, slowed by the poor state of the jobs market and tough credit conditions: unemployment has risen to a record 21%, more than twice as high as the Eurozone average (9.9%), and purchasing power is depressed by the rise in inflation. Household borrowing is not increasing, given the already high indebtedness of Spanish households (*equivalent to nearly 85% of GDP in 2010*). In addition, households continue to draw on their savings (*down by 5 percentage points of gross disposable income, to 13%, between 2009 and 2010*). This unsustainable situation can only be temporary, but it could persist until the unemployment trend shifts, something hardly possible before the economy sees a return to job-creating growth (2012).

Businesses: slight improvement

Apart from construction, the outlook is improving in most sectors (industry and services) in terms of short-term indicators, with the beginnings of recovery in retail sales (+2% in April) and a continued recovery in industry (+1.1% on annual average). Profitability indicators are good: over one year, margin rates nationally were up by 1 point, to

48%, in Q1, and financing capacity over the same period was up by 1.2%. However, the manner in which this develops remains quite uncertain, given the lack of both private and public sector domestic buyers, and this could prolong businesses' hesitancy to invest, at time when the rate of investment itself continues to contract (-6.6% on annual average).

Politics and budgets: austerity

Faced by pressures from the financial markets, Spain's government has toughened up its plans for fiscal consolidation, while its 2010 results showed a better than expected deficit of 9.2% of GDP, against a previously forecast 9.8%. The government is committed to achieving most of its budget adjustments by 2011 (trimming the deficit by 3.2 points, against 2.3 points in the previous plan) before moving on to cut the deficit by 1.5 percentage points in both 2012 and 2013. Meeting this target, however, looks hard to achieve, given the weak nature of the country's economic recovery. Our growth forecast is lower than that set forth by the Spanish government, and we expect a deficit of close to 7% of GDP 2011 and 5.8% of GDP in 2012. *_MI*

Election timetable

► 2012: legislative elections

Executive and legislature

► **Constitutional monarchy**

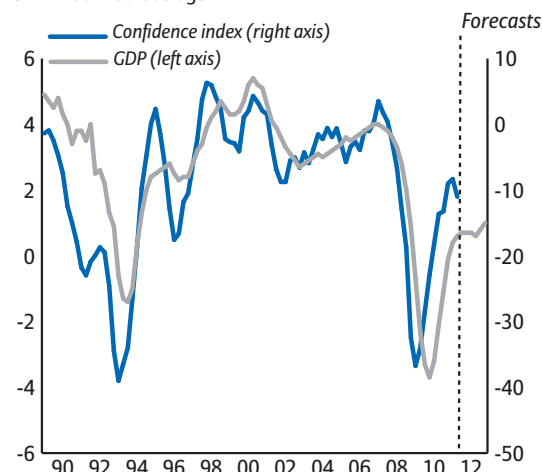
► **Head of State**, King Juan Carlos I

► **Prime Minister**: José Luis Rodríguez Zapatero (PSOE)

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

Advanced indicator of the economy

GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

Country	Exports	Share of total
Total	218	100 %
of which, Euro zone	123	56.6 %
France	42	19.3 %
Germany	24	11.1 %
Portugal	20	9.2 %
Italy	18	8.2 %
UK	13	6.2 %
Country	Imports	Share of total
Total	288	100 %
of which, Euro zone	147	51.1 %
Germany	43	15.0 %
France	37	12.8 %
Italy	21	7.2 %
China	17	5.8 %
Netherlands	15	5.2 %

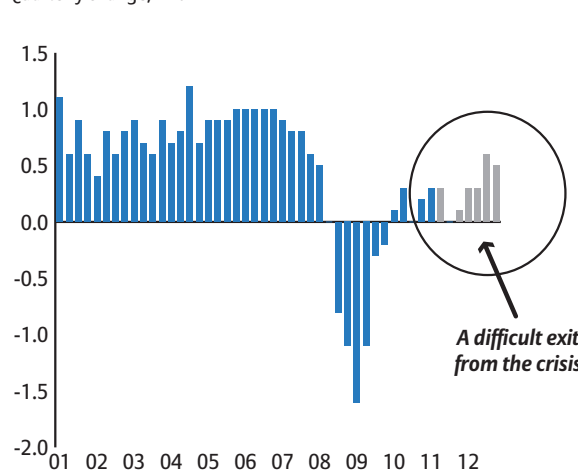
*USD billions: exports (FOB), imports (CIF)

12 month cumulative figures to end of December 2009

Sources: IHS Global Insight, IMF

GDP

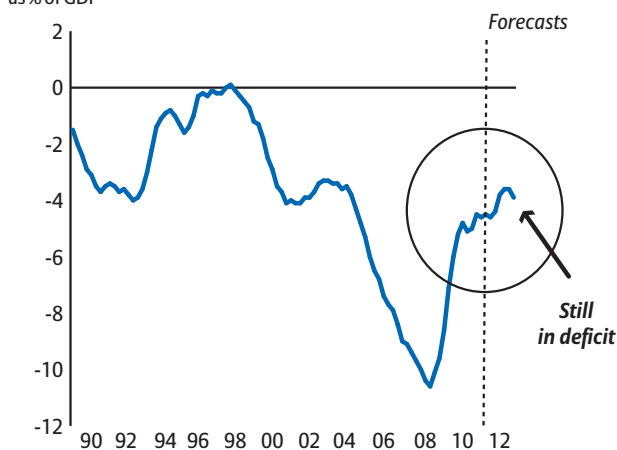
Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

Sources: IHS Global Insight, Euler Hermes forecasts

	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
SPAIN											
GDP	100%	-3.7	-0.1	0.7	1.0	0.0	0.2	0.3	0.3	0.0	0.1
Consumer Spending	59%	-4.3	1.3	0.6	0.8	-1.0	0.3	0.0	0.6	0.3	0.0
Public Spending	22%	3.2	-0.7	-0.8	-1.3	-0.7	-0.7	1.4	-1.0	-1.2	-1.0
Investment	21%	-16.0	-7.6	-4.4	0.8	-2.8	-1.4	-1.4	-0.5	-0.1	-0.1
Construction	11%	-11.9	-11.1	-8.8	-1.7	-2.9	-3.1	-2.5	-1.9	-1.1	-1.2
Equipment	11%	-20.0	-3.7	0.1	3.2	-2.6	0.2	-0.4	0.9	0.8	0.8
Stocks	*	3%	-1.1	-0.1	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0
Exports	31%	-11.6	10.3	11.2	5.2	0.5	3.9	5.0	2.0	0.5	2.0
Imports	35%	-17.8	5.4	5.2	3.1	-4.3	1.6	3.9	1.3	0.2	0.8
Net exports	*	-4%	3.5	1.1	1.6	0.6	1.7	0.6	0.2	0.1	0.4
Current account	**		-54	-48	-45						
Current account (% of GDP)			-5.2	-4.5	-4.4						
Employment			-6.8	-2.3	-1.5						
Unemployment rate			18.0	20.1	21.0						
Wages			-2.7	-1.5	0.7						
Inflation			-0.2	2.0	2.9						
General government balance	**		-117	-98	-77						
General government balance (% of GDP)			-11.1	-9.2	-7.0						
Public debt (% of GDP)			53	60	66						
Nominal GDP	**		1,054	1,063	1,101						

Netherlands

Poor domestic demand

Overview

Despite further acceleration in Q4 2010 and Q1 2011, marking seven successive quarters of growth (+4.3% overall), the Dutch economy has yet to return its pre-crisis levels (given that the economy contracted by 5.3% over five quarters) and already faces the possibility of slowing. One of the three main engines behind its revival has now run its course: the played its role: namely, the inventory cycle, has now finished normalising after considerable adjustments. The other two engines have for their part begun to gradually lose steam. The first of these is, support from public spending, with the end of stimulus measures and, on top of this, the implementation of fiscal consolidation. The second is the country's strong exports, which now face the slowdown of global demand. For its part, and with the exception of productive investment, domestic demand is slow to take over the reins: household consumption and investment should only recover more strongly in 2012. In this context, GDP growth will remain limited, both in 2011 (+2% after +1.8% in 2010) despite a significant base effect (+1.7% at the end of March) and in 2012 (+1.6%).

External sector: slowing ahead

By mid-2010, Holland's exports had quickly exceeded their pre-crisis quarterly levels both by volume and value, contributing a major 63% share of the country's economic growth in 2010. But there will be no escaping the slowing in European trade and more broadly in world trade, since its exports are mostly re-exports (direct resulting from the country's massive port and logistics infrastructure base and from its production of commodities (oil and gas)). The net effect on GDP growth, however, will be limited – thanks to lacklustre

domestic demand – with also a limited impact on the trade and current account balances, both of which will remain in surplus.

Household demand: weak until 2010

After a sharp drop through all of 2009 (-2.5%), household consumption remained chaotic across the quarters of 2010, with alternating stagnation, rises and falls during the year, which in the end posting only a limited recovery in overall volumes (+0.7% between the end of 2009 and March 2011). Falls in the number of unemployed and the unemployment rate triggered in mid-2010, following a relatively modest deterioration during the crisis, have given only little stimulus to household consumption, despite a noticeable revival in confidence. The surge in inflation, wage restraint accords and austerity measures (including a wage freeze for civil servants), along with household indebtedness and the wealth effect impact of falling house prices and share prices are all constraints that will disappear only gradually.

Businesses: looking for sales

Export-oriented businesses (in industry and services) have benefited more from the recovery in activity than businesses

more oriented towards household demand, such as those in retailing and, especially, construction. The general trend, however, is good, with improvement in the leading indicators (industrial output, capacity utilisation rates, etc.) and in advanced indicators (order books, outlook, etc.), despite a weakening in Q2 and a clear upturn in profits nationally (at the start of 2011 almost back to their pre-crisis quarterly peak), combined with a fall in insolvencies (-8.5% over 12 months to the end of May). Productive investment and employment should recover gradually.

Politics and budgets: aiming or consolidation

After months of difficult negotiations to form a new government, the new minority coalition government of the VVD and CDA – with parliamentary support from the PVV based on the 'Freedom and Responsibility' agreement – public has implemented a programme to rapidly restore public finances. The purpose of the new austerity plan (€15 billion over four years) is to cut the deficit to below 1% of GDP by 2015 (against -5.4% in 2010), particularly via caps on expenditure. [_ML](#)

Election timetable

► 2014: legislative elections

Executive and legislature

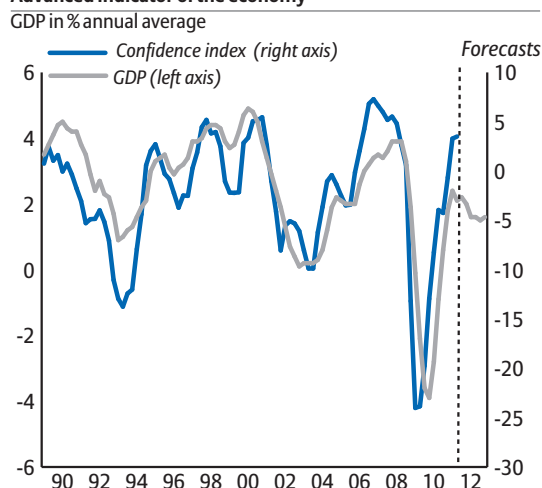
► **Constitutional monarchy with parliamentary government**

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

► **Minority coalition government**

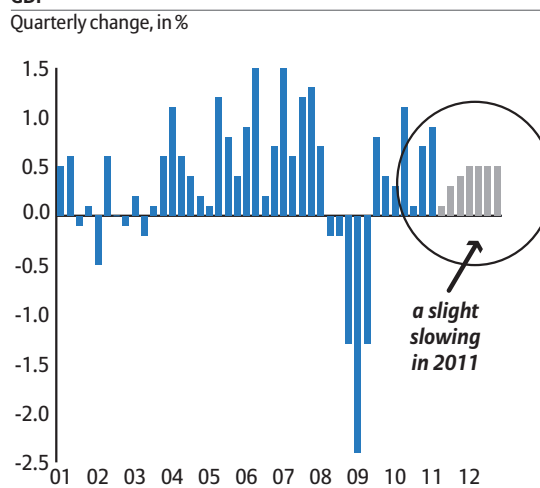
► **Parliament** (second chamber or 'Tweede Kamer', with 150 seats): VVD (Liberals, 31), PvdA (Labour, 30), PVV (extreme right, 24), CDA (Christian Democrats, 21), Socialists (SP, extreme left, 15), Green Left (GL, 10), D'66 (centrist reformers, 10), Christian Union (5), others (4)

Advanced indicator of the economy



Sources: IHS Global Insight, Euler Hermes forecasts

GDP



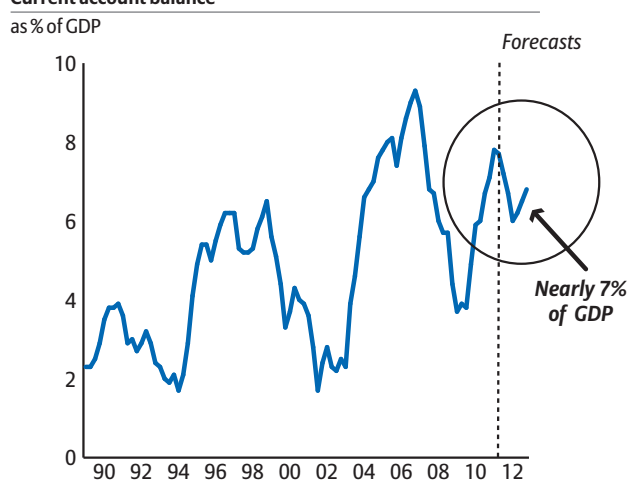
Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

Country	Exports	Share of total
Total	499	100 %
of which, Euro zone	304	60.9 %
Germany	127	25.5 %
Belgium	62	12.5 %
France	46	9.3 %
UK	41	8.2 %
Italy	25	5.1 %
Country	Imports	Share of total
Total	446	100 %
of which, Euro zone	165	37.1 %
Germany	77	17.2 %
China	52	11.6 %
Belgium	39	8.7 %
United States	35	7.8 %
UK	25	5.7 %

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

Current account balance



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

Sources: IHS Global Insight, Euler Hermes forecasts

NETHERLANDS	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
GDP	100%	-3.9	1.8	2.0	1.6	0.1	0.7	0.9	0.1	0.3	0.4
Consumer Spending	46%	-2.5	0.4	0.3	0.9	0.1	0.5	-0.5	0.4	0.2	0.2
Public Spending	26%	3.7	1.5	0.2	-0.4	0.5	-0.1	0.0	-0.1	-0.2	-0.2
Investment	18%	-12.7	-4.8	8.6	1.7	-2.9	0.5	9.8	-1.9	0.5	0.5
Construction	8%	-8.7	-19.5	10.8	1.0	-2.8	-1.8	16.3	-3.0	0.4	0.4
Equipment	10%	-16.6	11.3	6.8	2.4	-3.0	2.4	4.8	-1.0	0.5	0.5
Stocks	*	0%	-0.8	1.0	-0.4	0.0	-1.4	-0.5	0.7	-0.3	0.1
Exports	88%	-7.9	10.9	3.7	4.9	1.7	1.9	-0.2	0.5	0.8	1.0
Imports	79%	-8.5	10.5	3.3	4.2	-0.4	1.0	1.5	-0.2	0.7	1.0
Net exports	*	9%	-0.2	1.1	0.7	0.9	1.9	-1.4	0.6	0.2	0.1
Current account	**		28	42	41	43					
Current account (% of GDP)			4.9	7.1	6.7	6.8					
Employment			-0.5	-1.1	0.8	0.7					
Unemployment rate			4.8	5.5	5.1	4.8					
Wages			2.8	1.2	1.2	1.8					
Inflation			1.0	1.0	2.2	1.7					
General government balance	**		-31	-32	-24	-15					
General government balance (% of GDP)			-5.5	-5.4	-3.9	-2.3					
Public debt (% of GDP)			61	63	64	65					
Nominal GDP	**		572	591	613	635					

Belgium

The economic crisis is past, the political crisis remains

Overview

With eight consecutive quarters of expansion in the Belgian economy is part of the small circle of developed countries to have reached and exceeded (by +0.4%) their record pre-crisis levels of quarterly GDP. Moreover, the growth posted in Q1 2011 (+1.1% qtr/qtr), by increasing the base effect for yearly growth (to +1.8% at the end of March), raises the prospects of a better performance in 2011 (+2.3%) than in 2010 (+2.1%). Nonetheless, some loss of impetus is expected by the end of the year. Admittedly, domestic demand should continue to consolidate, thanks to resilient consumption and to recovery in private investment, but the impulse from public expenditure is compromised, as is that from external demand, which played a key role from the onset of recovery, contributing to 70% of the recovery in GDP, but which now promises to be less buoyant. GDP growth in 2012 (+1.9%) should be a degree lower than this year, but still higher than in the Eurozone.

External sector: at the heart of the slowdown

Parallel to the revival in global demand, there has been renewed dynamism in exports of goods and services since the crisis, (10.6% in 2010) driven by Germany. This is all the more key to Belgium given the massive importance of its external sector: exports accounted for 80% of GDP in 2010 have contributed on a net basis to more than 50% of its recovery. The global slowdown, the country's relative loss of competitiveness (higher wage and input costs) and the delayed effects of the appreciation in the euro are likely to moderate export growth in 2011 and 2012, although their net contribution to growth, while lower, will remain positive.

Household demand: buoyed by employment and wage rises

The fundamentals are fairly positive. The jobs market should continue its consolidation: Belgium's recovery was first brought a rapid return to net job creation (after only a limited decline during the crisis thanks to the possibilities offered by flexible working hours and temporary lay-offs), with a fall in the unemployment rate after mid-2010 (with a time delay, in line with the continued increase in the workforce). The rise in inflation, to more than 3% pa in H1 2011, should act as only a small brake on rising consumer confidence: it will be offset, at least in part this year and above all in 2012, by automatic indexing mechanisms (on wages and benefits), and by a likely fall in the rate of savings.

Businesses: in a better position

The recovery in activity has spread to the entire economy, starting first in services (70% of GDP) and industry, and then more recently, but less strongly in construction. Accompanying this has been a major improvement in confidence indicators, mostly to pre-crisis levels (before a deterioration in Q2) and an overall rise in profits. But all this has yet to reverse the uptrend in insolvencies (due to rising wages and produc-

tion costs). However the good outlook, notwithstanding the prospects of moderating growth, should continue to put pressure on production capacities and, with the aid of bank financing (+4.7% pa at the end of May) should fuel recovery in investment, after two consecutive years of contraction (-11% between mid-2008 and mid-2010).

Politics and budgets: a record period without a government

As it did in 2010 (-4.1%, against -5.9% in 2009), Belgium's economic recovery should help contain the fiscal deficit in 2011, especially since the failure to form a government following the elections of June 2010 has in practice resulted in a fiscal tightening, allowing only the running of day-to-day matters (under the "douzièmes provisoires" system of month-by-month budgeting, based on 2010 budget figures). But the prolonged political impasse renders any measures of adjustment and structural reform unlikely, while public debt is one of the highest in the Eurozone (97% of GDP in 2010, against 84% in 2007), and risks stoking worries over long term sustainability of Belgium's public finances, especially given the costs implicit in the country's ageing population. [_ML](#)

Election timetable

► 2014: legislative elections

Executive and legislature

► **Federal constitutional monarchy**

► **Head of State:** King Albert II (since 1993)

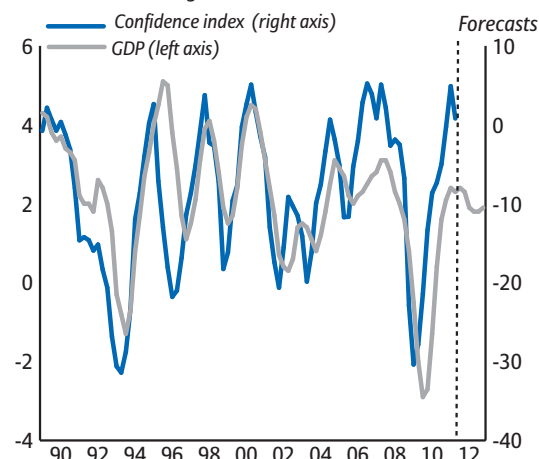
► **Prime Minister:** Yves Leterme (since November 2009 – resigned April 22, 2010 but serving as caretaker in the post)

► **Chamber of Representatives** (150 seats), New Flemish Alliance (N-VA, 27 seats), Socialist Party (PS, 26, Francophone), Flemish Christian Democrats (CDV, 17), Reformist Movement (MR, 18, Francophone), Socialist Party – Different (SP.A, 13, Flemish), Open Flemish Liberals and Democrats (Open VLD, 13), Flemish Interest (VB, 12), Humanist Democratic Centre (Cdh, 9, Francophone), Ecolo (8), List Dedecker (1), Popular Party (1)

► **Senate** (74 seats) total, of which 40 elected, of which: N-VA (9), PS (7), CD&V (4), SP.A (4), MR (4), Open VLD (4), VB (3), Ecolo (2), CDH (2), Groen! (1)

Advanced indicator of the economy

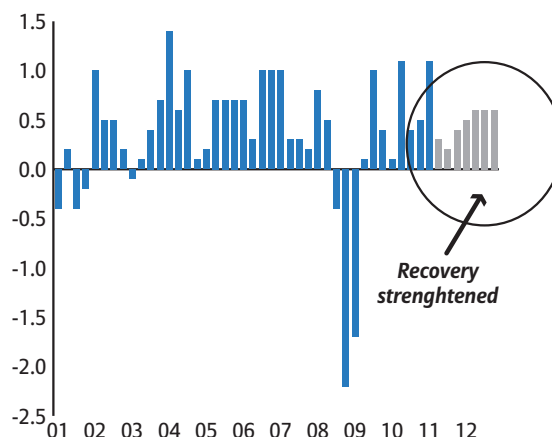
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

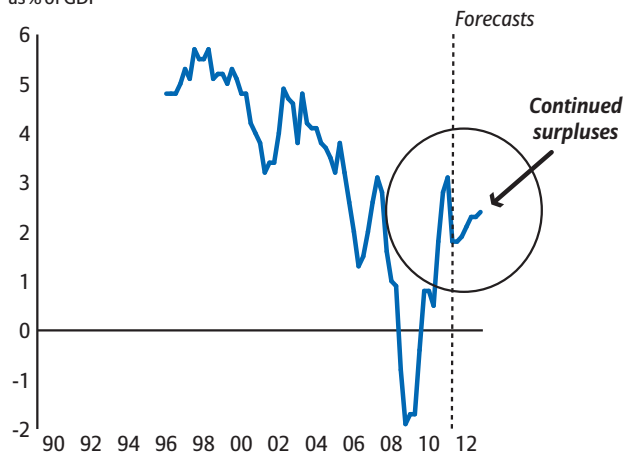
Trading partners

Country	Exports	Share of total
Total	370	100 %
of which, Euro zone	232	62.6 %
Germany	72	19.6 %
France	66	17.7 %
Netherlands	44	11.8 %
UK	27	7.2 %
United States	20	5.4 %
Country	Imports	Share of total
Total	352	100 %
of which, Euro zone	214	60.8 %
Netherlands	63	17.9 %
Germany	60	17.1 %
France	41	11.7 %
Ireland	22	6.3 %
United States	20	5.7 %

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

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

Sources: IHS Global Insight, Euler Hermes forecasts

	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
BELGIUM											
GDP	100%	-2.7	2.1	2.3	1.9	0.4	0.5	1.1	0.3	0.2	0.4
Consumer Spending	53%	-0.2	1.6	1.6	1.7	0.5	0.6	0.2	0.3	0.4	0.5
Public Spending	26%	1.0	0.8	1.0	0.3	0.2	0.1	0.6	0.0	0.0	0.1
Investment	19%	-6.1	-1.4	3.0	2.9	0.5	0.5	1.1	0.7	0.5	0.7
Construction	6%	-3.0	-2.5	1.3	1.9	0.3	0.5	0.1	0.4	0.4	0.4
Equipment	13%	-7.5	-0.9	3.7	3.3	0.7	0.5	1.5	0.8	0.6	0.8
Stocks	*	0%	-1.0	-0.4	0.1	-0.9	1.3	0.1	-0.2	-0.8	0.8
Exports	84%	-11.4	10.6	6.8	4.7	0.2	2.3	2.3	1.1	0.8	0.9
Imports	82%	-10.9	8.4	6.3	4.4	-0.8	3.9	1.7	0.9	0.0	1.9
Net exports	*	2%	-0.5	1.7	0.6	0.4	0.9	-1.2	0.2	0.7	-0.8
Current account	**		2	5	4	6					
Current account (% of GDP)			0.4	1.4	1.0	1.6					
Employment		-0.8	1.7	1.8	0.7						
Unemployment rate		7.9	8.3	7.6	7.4						
Wages		2.6	0.5	2.5	2.8						
Inflation		0.0	2.3	3.2	2.2						
General government balance	**		-20	-14	-15						
General government balance (% of GDP)			-5.9	-4.1	-3.7	-3.9					
Public debt (% of GDP)			96	97	97	98					
Nominal GDP	**		339	353	371	387					

Greece

Only a temporary stay: gaining time is not enough

Overview

In an extremely tense socio-political context, the adoption in late June of a drastic austerity plan was vital for unblocking EU and IMF funds and for Greece averting default on payments in the short term. However, this is far from guaranteeing the rescue of the country, which has further work to do to achieve durable solvency at a time when its economy is mired in crisis. All its economic agents are in great difficulty. The state needs both to deal with the debt crisis and to reassure a population that is increasingly hostile to its policies. Households have no option but to cut their spending, constrained by the fall in their purchasing power and the severe deterioration in the jobs market. Businesses whose activity is chiefly directed at domestic demand are obliged to adjust. In this context, Greece's growth prospects will come only from its foreign trade sector in the short term, and in the future from the success of its structural reforms. The economy will not avoid a sharp contraction in 2011 (-3.6%) after already sharp declines in 2009 and 2010 (-7%), followed by a possible stabilisation in 2012. But every point of the steps set out in the various plans will also be the occasion for tensions surrounding its sovereign debt.

External sector: from shock absorber to a source of growth

As in 2010, when it posted a positive (+2.3 percentage points) growth impulse, foreign trade promises to be the only support for growth in 2011, and to an even greater extent (+3.8 points) given a further fall imports in line with that expected drop in domestic demand. Exports could also, however, become a source of growth in the medium term. On the one hand, the fall in wages will bring a drop in labour

costs that should improve the competitiveness of the country. Moreover, structural reforms in terms of trade liberalisation (with reduced customs barriers from Q3 2011) should help growth in foreign trade.

Household demand: flagging

Despite a surge in early 2011, following an almost 9% fall over the previous three quarters (to the lowest quarterly level since late 2005), consumer spending will remain at low levels for several quarters more, given that the fundamentals are durably negative: these include consumer confidence, financing, and purchasing power – the latter hit by wage cuts, tax increases and inflation that remains high despite an easing due to VAT base effects and an easing in commodity prices. Moreover employment is down, and the jobless rate has risen rapidly (to close to 15% in mid-2011).

Businesses: still weakened

The outlook is hardly favourable, given that every sector is in difficulty and that output, for the most part for the domestic economy, has borne the full brunt of the fall in domestic demand, already taking capacity utilisation rates to very low levels. In this context, the priority for businesses is a financial one: to safeguard their margins and ensure their own survival. However, the rapid imple-

mentation of reforms recommended by the EU and the IMF – in particular privatisations, trade liberalisation and greater openness to international investors – should assist (in the absence of any additional sovereign debt tensions) in gradually improving investment (excluding construction) during 2012.

Politics and budgets: extreme risks

Sovereign risk is at its height and will probably remain so for a prolonged period. The pressures that have been eased, for now, with the approval of additional austerity measures (€28 billion in savings between 2012 and 2015 and €50 billion from privatisations), and which allow access to the fifth tranche of the IMF and EU aid, could resurface at any future point of the steps to be taken and each new assessment by the rating agencies. The socioeconomic risks are high, given the recessionary impact of austerity measures on an already contracting domestic demand, the worsening social tensions, and a population already hard hit by the crisis. In this environment, the referendum on reforms promised in autumn 2011 by Prime Minister Papandreou looks politically to be a risky exercise. [_MI/ML](#)

Election timetable

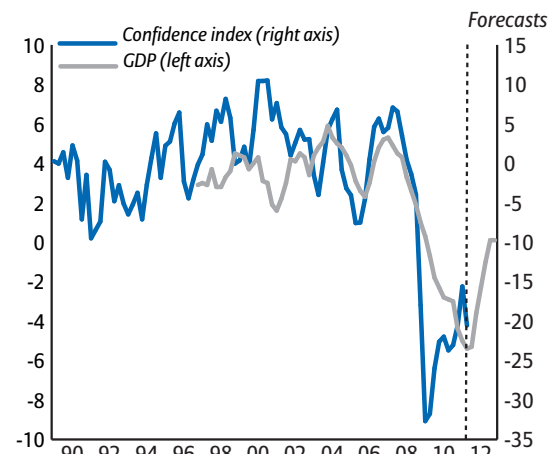
- ▶ **October 2013:** legislative elections
- ▶ **2015:** presidential elections

Executive and legislature

- ▶ **President** (elected by the Parliament): Karolos Papoulias (PASOK), in office since 2005 and re-elected in February 2010
- ▶ **Prime Minister:** George Papandreou (PASOK), since October 2009
- ▶ **Parliament** (300 seats): New Democracy (ND, 91 seats), Panhellenic Socialist Movement (PASOK, 160), Communist Party of Greece (KKE, 21), Popular Orthodox Rally (LAOS, 15)

Advanced indicator of the economy

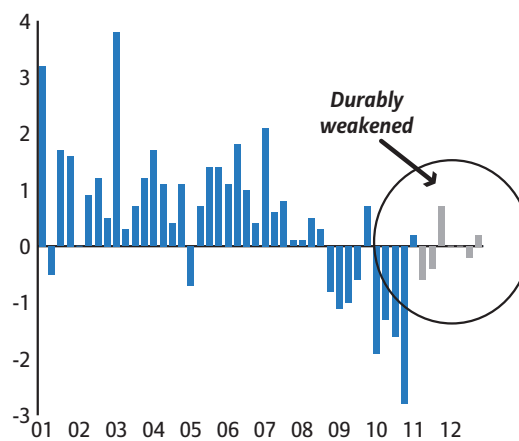
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

Country	Exports	Share of total
Total	20	100 %
of which, Euro zone	7	35.6 %
Germany	2	11.1 %
Italy	2	11.0 %
Cyprus	1	7.3 %
United States	1	4.9 %
UK	1	4.4 %
Country	Imports	Share of total
Total	60	100 %
of which, Euro zone	31	51.2 %
Germany	8	13.7 %
Italy	8	12.7 %
China	4	7.1 %
France	4	5.7 %
Netherlands	4	3.8 %

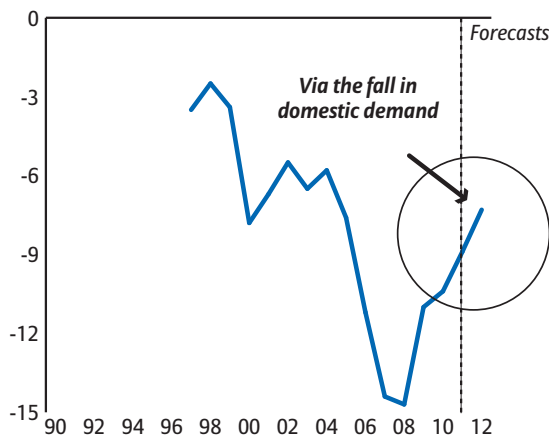
*USD billions: exports (FOB), imports (CIF)

12 month cumulative figures to end of December 2009

Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

Change over the period, unless otherwise indicated: * contribution to GDP growth ** mds euros

Sources: IHS Global Insight, Euler Hermes forecasts

	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
GREECE											
GDP	100%	-2.3	-4.4	-3.6	0.1	-1.6	-2.8	0.2	-0.6	-0.4	0.7
Consumer Spending	74%	-1.8	-4.6	-2.5	-0.3	-0.8	-1.6	1.1	-0.2	-0.2	-0.1
Public Spending	19%	10.3	-8.3	-8.0	-6.2	0.4	1.1	-6.0	-3.0	-2.0	-1.0
Investment	17%	-11.2	-16.5	-11.1	-0.2	-6.3	-3.0	-1.7	-1.7	-1.2	0.5
Stocks	*	1%	-2.8	1.6	-2.2	0.0	1.0	-4.7	0.0	0.0	0.0
Exports	21%	-20.1	3.8	1.0	3.8	-8.6	11.2	-4.4	1.5	1.0	1.0
Imports	32%	-18.6	-4.8	-11.5	-2.3	-2.5	-3.6	-6.1	-0.1	-0.2	-2.2
Net exports	*	-10%	2.2	2.3	3.8	1.5	3.4	0.9	0.4	0.3	0.9
Current account	**		-25.8	-24.1	-20.1	-16.7					
Current account (% of GDP)			-11.0	-10.4	-8.9	-7.3					
Employment			-1.1	-2.7	-4.0	-0.5					
Unemployment rate			9.5	12.5	15.7	16.8					
Wages			1.2	-4.9	-3.9	-1.5					
Inflation			1.3	4.7	3.4	1.0					
General government balance	**		-36.1	-24.2	-19.0	-17.5					
General government balance (% of GDP)			-15.4	-10.5	-8.4	-7.7					
Public debt (% of GDP)			127	143	157	162					
Nominal GDP	**		234.3	230.3	225.4	228.0					

United kingdom

Recovery by a hair's breadth

Overview

The recovery continues, but at a slow pace, and it will take time for the economy to return to pre-crisis levels. The UK economy ended 2010 with GDP growth of 1.3%, below the consensus expectation (at 1.7% in December 2010) and lower than the 1.7% Eurozone figure. The trend continued in Q1 2011 (+0.5% qtr/qtr) with, as expected, a shift in the growth drivers towards exports. Indeed, domestic markets have been hit by a fall in household consumption, by a slowdown in public expenditure, and by weak investment. GDP growth, which had been fuelled by domestic demand in 2010 (with a positive growth impulse of 2.3 points), should now rely more on the UK's export performance, along the lines of the Q1 figures, but it will remain thus dependent on demand in its trading partners, which is also being hit by austerity programs. In this environment, GDP should rise only modestly in 2011 (+1.4%) before a slight technical acceleration in 2012 (+1.8%) due, for its part, to a gradual recovery in investment.

Monetary policy: status quo

Despite strengthening inflationary pressures, monetary policy continues to be dovish – by votes showing comfortable (e.g., 7 to 2) majorities – and the Bank of England's lead rate remains anchored at 0.5%. The main issue remains the great weakness in domestic demand and the upside pressures on external demand. Inflationary pressures are seen as transitory phenomena – arising from increased commodity prices – that should ease in the medium term.

External sector: a key driver

The trade figures are encouraging. After a bad year in 2010, the trend is towards recovery in the net growth impulse from the external sector (strongly positive in Q1). The country has benefited from both a slight improvement in demand from its main trading partners (for the most part, in the Eurozone) and a sharp drop in imports due to the easing in domestic demand. The depreciation in the British pound should help sustain the growth contribution from the external sector.

Household demand: the weak link

Households are the most vulnerable actors in the economy. Despite a timid revival (+0.6%) for the full year 2010, consumer spending has in fact started to fall. In the first instance, this has been due to a fall in real wages: while employee income has grown steadily in nominal terms, the acceleration in inflation following the increases both in VAT and in import prices has eaten into consumer purchasing power. Next, in the jobs market, net employment is struggling to recover, while unemployment remains high (7.8% against 7.7% in 2009). The government's fiscal austerity measures only compound the difficulties. For the next two years, there is little prospect of any outright upturn capable of offsetting the fall in household demand attributable to the crisis (-3.2%)

Businesses: a key actor

Businesses are the only domestic economic agents capable of consolidating recovery: profitability indicators have improved, with a clear gain in margin rates nationally (+2 points for the year to the end of March 2011), due to slowing wage costs. Despite this, investment is struggling to revive, with a further deterioration in the construction outlook on the supply side (-3.4% in Q1 2011) and with uncertainty over domestic demand. In this context, businesses should continue taking a cautious approach to investment in 2011 and 2012.

Politics and budgets: targets maintained

Initial fiscal targets were met, and the government intends to maintain its policy of austerity. Overall, the intentions remain the same as stated in the previous plan (with deficits of close to 8% and 7% in calendar years 2011 and 2012 respectively), with some adjustments to the growth forecasts (2011 real growth revised from +3% to +1.7%, and inflation forecasts revised from 1.5% to 3.9%). On trend, the deficit should move towards the government's set targets, but an upward drift cannot be ruled out, given the social tensions (increase in the number of protest actions) and the risks of a deteriorating economic outlook (especially if businesses fail to invest). *MI*

Election timetable

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

Executive and legislature

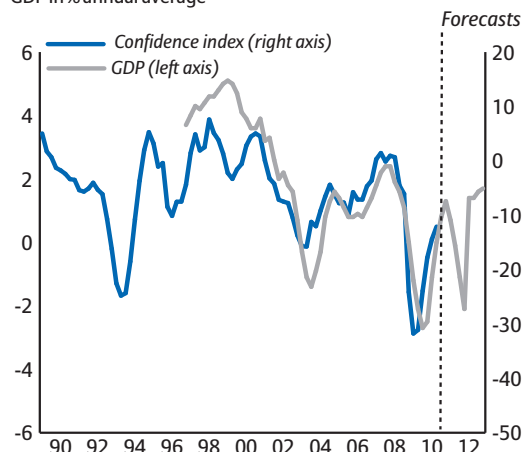
► **Constitutional Monarchy**

► **Prime Minister:** David Cameron (Conservative)

► **House of Commons** (650 seats): Conservatives (306), Liberal Democrats (57), Labour (258), others (29)

Advanced indicator of the economy

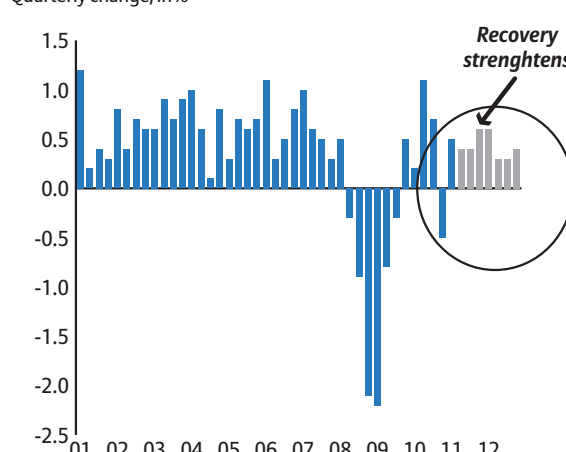
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

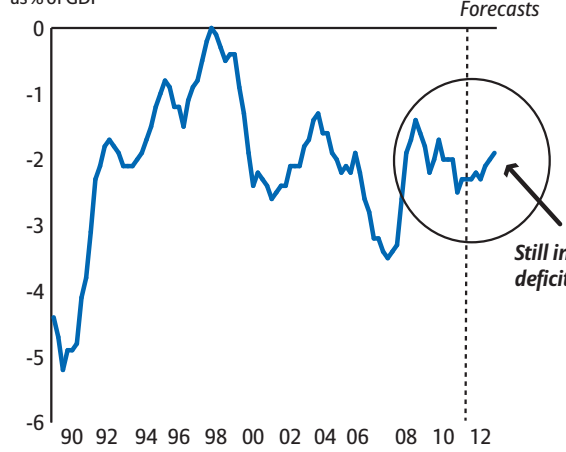
Trading partners

Country	Exports	Share of total
Total	353	100 %
of which, Euro zone	172	48.7 %
United States	52	14.7 %
Germany	39	11.1 %
France	28	8.0 %
Netherlands	27	7.8 %
Ireland	24	6.9 %
Country	Imports	Share of total
Total	482	100 %
of which, Euro zone	215	44.6 %
Germany	62	12.9 %
United States	47	9.7 %
China	43	8.9 %
Netherlands	33	6.9 %
France	32	6.6 %

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

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

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

Sources: IHS Global Insight, Euler Hermes forecasts

UNITED KINGDOM	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
GDP	100%	-4.9	1.3	1.4	1.8	0.7	-0.5	0.5	0.4	0.4	0.6
Consumer Spending	65%	-3.2	0.6	-0.5	0.6	-0.1	-0.3	-0.6	0.1	0.2	0.2
Public Spending	23%	1.0	0.8	0.3	-1.1	-0.5	0.4	1.0	-0.5	-0.5	-0.6
Investment	16%	-15.3	2.9	-2.3	6.1	3.1	-1.8	-4.4	1.0	1.4	1.9
Construction	9%	-13.7	0.2	-4.5	5.9	4.5	-5.2	-4.0	1.0	1.0	1.8
Equipment	7%	-17.5	6.7	0.8	6.3	1.2	3.0	-4.9	1.0	2.0	2.0
Stocks	*	0%	-1.3	1.3	0.3	0.5	0.4	-0.4	0.0	0.0	0.0
Exports	27%	-10.1	5.3	9.2	5.6	1.6	1.7	3.7	1.7	1.5	1.5
Imports	30%	-11.9	8.5	2.3	2.8	1.9	3.2	-2.3	0.5	0.7	0.4
Net exports	*	-3%	0.9	-1.0	1.8	0.8	-0.1	-0.5	0.1	0.2	0.3
Current account	**		-24	-36	-33	-30					
Current account (% of GDP)			-1.7	-2.5	-2.2	-1.9					
Employment			-1.8	0.6	0.7	0.8					
Unemployment rate			7.7	7.9	7.8	7.5					
Wages			1.4	2.4	2.0	2.8					
Inflation			2.2	3.3	4.0	2.6					
General government balance	**		-159	-151	-121	-117					
General government balance (% of GDP)			-11.4	-10.4	-7.9	-7.3					
Public debt (% of GDP)			68	78	86	90					
Nominal GDP	**		1,395	1,454	1,531	1,600					

Sweden

Slowing, but after a spectacular revival

Overview

The Sweden's economy has seen one of the strongest recoveries in the EU, with a significant rebound following the bottom of the world cycle (+9.5% at the end of March 2011). This recovery, achieved in particular in 2010 thanks to the biggest expansion for two decades (+5.4%), helped return GDP to its pre-crisis level. The dynamic continued over H1 2011 and spread to the entire economy, also strengthening the Riksbank in its policy of monetary normalisation initiated in mid-2010. This tightening and the slowing in the world economy should help continue the slowdown in the economy (which, despite all, already posted growth of 0.8% qtr/qtr in Q1 2011, with the same expected for Q2) and take GDP growth back to more sustainable rates.

Monetary policy: continued tightening

After the significant cuts in lead interest rates (-450 basis points) during the crisis, the seven successive increases made in the space of a year (+125 bp, to 2% in July 2011) has certainly not brought the end of Riksbank's monetary tightening exercises. The persistent dynamism of the economy, alongside inflationary expectations and a surge in inflation to a yearly 3% in Q2 – against the official target of 2% – are two clear reasons for tightening the screws a few more times.

External sector: still an engine

Exports rose by 10.6% in 2010, driving recovery in the economy and accounted for an important share of output. However, exports should see a significant slowing due to the easing in world demand and the appreciation in the Swedish krona, which, in mid-2011, was back at its high levels of summer 2008 against the dollar and of the end

of 2006 and early 2007 against the euro, cutting into Sweden's export competitiveness. The net contribution to real growth will even so remain positive, as will Sweden's commercial and current account balances.

Household demand: buoyed by record employment

Household expenditure and investment sustained the country's economic recovery, first, thanks to the impetus of fiscal and monetary stimulus, and then, since 2010, as continuous improvement in the jobs market to record volumes took hold of the reins. The fundamentals – lower unemployment, improved confidence, lower savings and better wages, etc. – offer a continued good outlook, despite the presence of some braking factors (inflation, rising interest rates).

Businesses: well through the crisis

The strong recovery in activity (with industrial output +17% against early 2009) helped to restore overall profitability (with aggregate quarterly operating profit volumes exceeding pre-crisis levels since Q3 2010), and brought a halt to the upsurge in insolvencies (-4.8% in 2010). It also brought a rapid increase in capacity utilisation rates, to well above the long-term average, helping recovery in investment and employment. However, Q2 saw a clear easing in confidence indicators

(Eurostat, PMI), although this was from their high existing levels, pointing to still positive but slightly less dynamic export sales than in 2010, and also to still solid turnover on the domestic market, together enough to continue the trend into 2012.

Politics and budgets: sound public finances

Public finances quickly benefited from the economic turnaround. They should move into the black in 2011, a situation that had been the norm since 1998 (apart from 2002-2003), before the impact of the crisis on revenues and before the implementation of stimulus measures. This return to surplus, won with no fiscal consolidation, gives some leeway to Prime Minister Reinfeldt, victor in the legislative elections in September 2010 but heading a minority coalition government and so needing forge alliances to pass various pieces of legislation. [_ML](#)

Election timetable

► September 2014: legislative elections

Executive and legislature

► Parliamentary constitutional monarchy

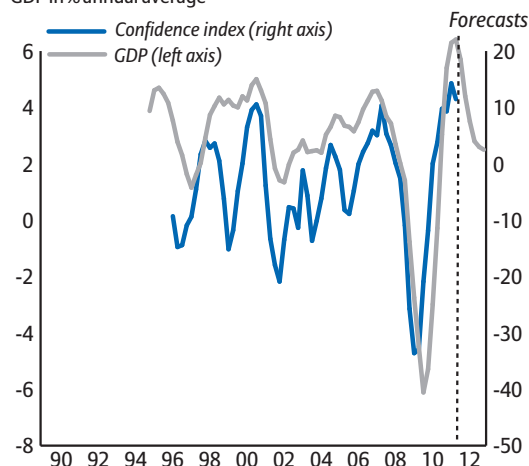
► Head of State: King Carl XVI Gustaf (since 1973)

► Prime Minister: Fredrik Reinfeldt (since 2006)

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

Advanced indicator of the economy

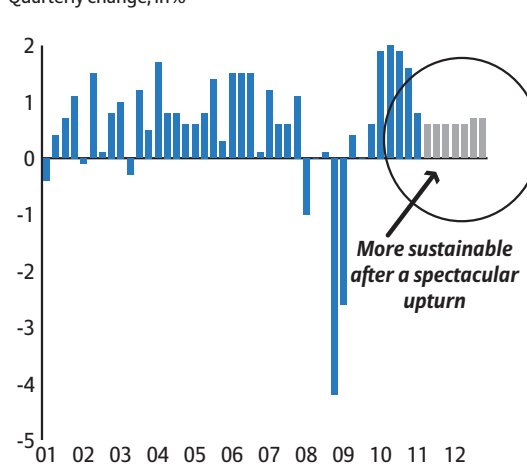
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts

GDP

Quarterly change, in %



Sources: IHS Global Insight, Euler Hermes forecasts

Trading partners

Country	Exports	Share of total
Total	131	100 %
of which, Euro zone	50	38.1 %
Norway	14	10.6 %
Germany	13	10.2 %
UK	10	7.4 %
Denmark	10	7.3 %
Finland	8	6.4 %
Country	Imports	Share of total
Total	120	100 %
of which, Euro zone	55	45.9 %
Germany	21	17.9 %
Denmark	11	8.9 %
Norway	10	8.7 %
Netherlands	7	6.2 %
UK	7	5.6 %

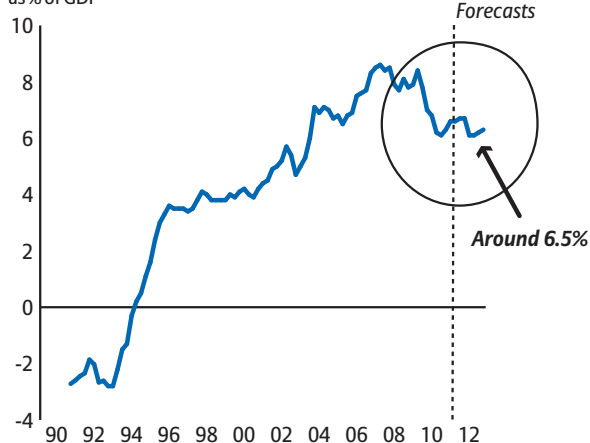
*USD billions: exports (FOB), imports (CIF)

12 month cumulative figures to end of December 2009

Sources: IHS Global Insight, IMF

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts

Economic Forecasts

Change over the period, unless otherwise indicated: * contribution to GDP growth ** SEK Bn

Sources: IHS Global Insight, prévisions Euler Hermes

SWEDEN	2010	2009	2010	2011	2012	09 10	12 10	03 11	06 11	09 11	12 11
GDP	100%	-5.3	5.4	4.4	2.5	1.9	1.6	0.8	0.6	0.6	0.6
Consumer Spending	48%	-0.4	3.4	2.6	2.5	0.9	0.9	0.4	0.7	0.8	0.7
Public Spending	27%	1.6	2.0	1.3	0.9	0.2	1.0	-0.2	0.2	0.3	0.3
Investment	18%	-15.3	5.9	6.8	3.7	3.3	1.8	1.6	1.1	1.0	0.8
Construction	13%	-9.2	4.4	7.5	3.7	3.6	2.9	1.9	1.0	1.0	0.8
Equipment	5%	-27.5	9.8	5.1	3.6	2.6	-0.6	1.0	1.5	1.0	0.7
Stocks	*	1%	-1.8	2.1	1.3	0.0	0.4	0.6	0.0	0.0	0.0
Exports	50%	-13.2	10.6	7.9	4.3	3.3	2.0	2.3	0.7	0.5	0.9
Imports	44%	-13.5	12.3	8.3	3.9	2.5	2.0	3.1	0.8	0.6	0.9
Net exports	*	6%	-0.7	0.0	0.3	0.5	0.1	-0.2	0.0	0.0	0.1
Current account	**		218	207	235						
Current account (% of GDP)			7.0	6.3	6.7	6.3					
Employment			-2.3	1.1	1.4	0.9					
Unemployment rate	***		8.4	8.4	7.8	7.3					
Wages			1.0	2.4	2.4	2.9					
Inflation			-0.3	1.5	2.9	2.2					
General government balance	**		-22	0	14	26					
General government balance (% of GDP)			-0.7	0.0	0.4	0.7					
Public debt (% of GDP)			43	40	37	35					
Nominal GDP	**		3,089	3,306	3,519	3,701					

Brazil

Policy tightening continues

The economy gathered momentum in Q1 compared to the previous quarter as seasonally adjusted, qtr/qtr growth accelerated to 1.6% from 0.8% in Q4 2010. On a yr/yr basis, however, growth slowed to 4.2% from 5% in Q4 2010. Gross fixed investment was the main driver in Q1, after contracting qtr/qtr in Q4 2010, though household consumption remained robust. Net exports made a positive contribution in the quarter, as import volume growth slowed sharply. Early indications of Q2 are that growth slowed again.

Inflation accelerated to 6.6% yr/yr in May, just above the upper bound of the 4.5% +/-2% target range. The central bank's latest forecasts put the end-2011 rate at 5.8% yr/yr, which, the bank says, will require "sufficiently prolonged" monetary adjustment. Consensus expectations of inflation are a little higher. The policy interest rate (SELIC) began to rise in April 2009 and after a pause ahead of last years elections rose to 12.25% in June, but the peak of the tightening cycle probably has still to be reached. Credit growth has been very vigorous for some time and has not eased yet, but domestic demand needs to be cooled.

The budget was amended in February as the new government trimmed spending. The primary fiscal surplus target for 2011 is unchanged at 3.3% of GDP, which was missed in both 2009 and 2010. In the first five months of 2011, however, the primary surplus (which excludes interest rates) was 4.0% of GDP compared with 2.8% of GDP in the same period of 2010. The overall fiscal deficit was 2.2% of GDP in Jan-May (against a deficit of 2.6% in the same period of 2010). Net public debt, which had increased as a proportion of GDP to 42.8% at end-2009, declined to 40.7% at end-2010 and 40.4% in May 2011. General government gross debt increased to 55.7% of GDP in May 2011 from

54.7% at end-2010. The trade surplus fell in 2010, as imports surged, but in the first five months of 2011, the trade surplus exceeded that of Jan-May 2010, as commodity prices boosted exports. Exports in June also grew strongly. Yet the current account deficit widened slightly in the first five months, to 2.3% of GDP, as profits and dividend payments increased. FDI increased strongly to May. Foreign exchange reserves have continued to rise and cover 180% of the sum of the estimated current account deficit for 2011 plus principal repayments on medium-term plus short term debt outstanding at end-2010.

One impact of strong real growth and higher interest rates is exchange rate appreciation, notwithstanding controls on capital inflows, and the real effective rate is now stronger than in 2007.

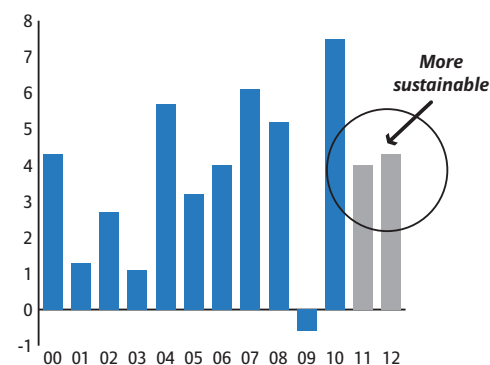
Slowdown, but still robust

In 2011 overall annual growth will slow to around 4% in 2011, from an unsustainably strong 7.5% in 2010, followed by 4.3% in 2012, as policy tightening takes effect. Inflation should also begin to moderate but is likely to remain towards the upper end of the target range for much of 2011-12. The current account deficit could widen to 2.5-3.0% in 2011-12, but the external balance overall should remain robust. The exchange rate, however, is vulnerable to a short, sharp depreciation should the global environment deteriorate more than expected.

President Dilma Roussef, having won the elections last year, benefiting strongly from her predecessor's popularity, Lula da Silva's extraordinary popularity, assumed office in January has continued the broad thrust of the previous government's policies, though in the short-term she has begun to tighten policy overall, while extending the anti-poverty programme. *_DA*

GDP

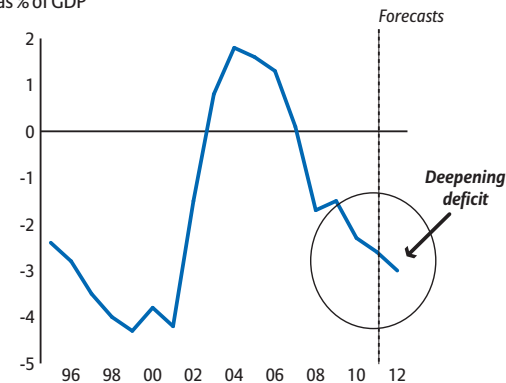
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts CRU

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts CRU

Economic Forecasts

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

BRAZIL	2009	2010	2011	2012
GDP	-0.6	7.5	4.0	4.3
Consumer Spending	4.2	7.0	4.3	4.6
Public Spending	3.9	3.3	3.5	3.8
Investment	-10.3	21.8	9.0	9.5
Stocks	*	n.a	n.a	n.a
Exports	-10.2	11.5	6.5	7.0
Imports	-11.5	36.2	15.0	16.0
Net exports	*	0.1	-2.6	-1.3
Current account	-49	-83	-107	-133
Current account (% of GDP)	-1.5	-2.3	-2.6	-3.0
General government balance **/**	-105	-96	-97	-98
General government balance (% of GDP)	-3.3	-2.6	-2.4	-2.2
Public debt (% of GDP)	62	55	56	57
Nominal GDP **	3,185	3,675	4,049	4,414

China

Inflation focus

Inflation has continued to be the main concern for policymakers so far this year, as the consumer price index accelerated to 6.4% yr/yr in June, led by increased food costs, latterly an increase in pork prices. The authorities have responded with monetary tightening. Reserve requirements were raised by another 50bps in June, the sixth increase this year. Policy interest rates were also raised further in early July, by 25bps to 6.25%. Some further tightening is likely as the authorities “normalise” the monetary stance, but credit and monetary growth has eased and inflation is expected to peak in Q3, as food costs ease, which should allow the authorities some breathing space and the opportunity to switch the policy focus back towards growth if necessary.

The fiscal deficit remains modest at 2.3% of GDP in 2010 (World Bank) and most of the fiscal expansion in 2009-10 occurred through quasi-fiscal lending. In 2011 the deficit is unlikely to exceed 1.5% of GDP. General government debt is around 20% of GDP, based on World Bank and IMF data, though data recently released by China’s audit office reveals that local authority lending raises the total public debt-GDP ratio substantially.

Real GDP growth in Q2 2011, slowed slightly to 9.5% yr/yr from 9.7% in Q1 and 9.8% Q4 2010 (10.3% full year 2010). Seasonally adjusted data showed growth of 2.2% qtr/qtr, slightly higher than the 2.1% of Q1, but still indicative of a slowdown. Consumer confidence surveys have turned down and PMIs declined again in June, though they both remained in positive territory. The trade surplus fell in the first six months of 2011 compared with the same period of 2011, as import growth outstripped that of exports, driven in part by higher commodity prices. However, import growth slowed shar-

ply in June and as imports for domestic use have been growing faster than those for re-exports and commodity prices ease, the trade surplus will probably rise again in the coming months.

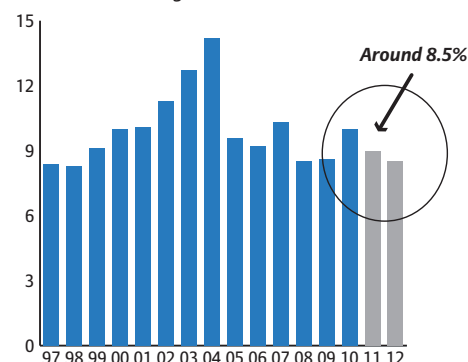
In mid-2010 the authorities announced the resumption of some exchange rate flexibility, ending the hard peg to the USD re-introduced during the global financial crisis. The exchange rate has appreciated by 5.4% since then but seems to have stalled again recently. Foreign exchange reserves continued to accumulate.

Growth slowdown

Growth in 2011 is likely to be around 8.5%, followed by a similar pace in 2012, as the global recovery moderates and monetary tightening has taken hold. Inflationary pressures should subside in the later months of 2011. The economy is clearly slowing and will probably avoid too sharp a slowdown, as restrictions on credit growth are eased in line with expected inflation, though there is some risk of a few months below expectations growth. The inter-action of construction output and property prices remain also remain a risk. The current account surplus now looks set to fall in 2011, before rising again to around 5% of GDP in 2012, but FX reserves will continue to increase. The exchange rate is still likely to appreciate by around 5% in the next twelve months, but overall the exchange rate stance will remain cautious. Medium-term policy remains focused on re-balancing the economy towards domestic consumption and implementation of reforms necessary to achieve this. [DA](#)

GDP

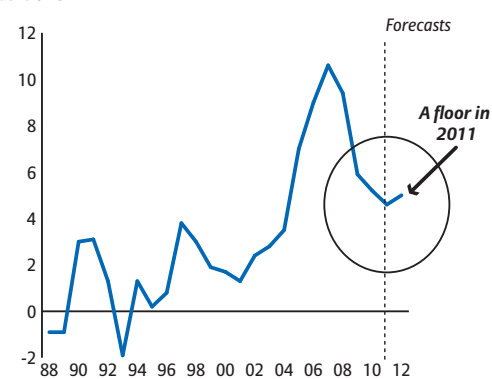
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts CRU

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts CRU

Economic Forecasts

CHINA	2009	2010	2011	2012
GDP	9.2	10.3	9.0	8.6
Consumer Spending	7.9	8.0	8.4	8.5
Public Spending	11.5	11.0	10.5	10.0
Investment	15.8	11.8	10.7	9.1
Exports	-12.1	16.0	7.0	9.0
Imports	-5.7	19.0	9.5	9.5
Net exports	*	-2.6	0.7	0.6
Current account	**	2,029	2,067	2,059
Current account (% of GDP)		5.9	5.2	4.6
Inflation		-0.7	3.3	4.8
General government balance **		-690	-915	-676
General government balance (% of GDP)		-2.0	-2.3	-1.5
Public debt (% of GDP)		18.6	19.1	19.0
Nominal GDP	**	34,502	39,798	45,091
				50,637

India

Policy focus is inflation, as growth remains buoyant

Monetary policy continues to tighten...

GDP growth slowed to 7.8% yr/yr in the three months ending end-March (Q1 2011 and Q4 FY 2010/11), the slowest growth in five quarters and down from 8.3% in the previous quarter. In the FY (April-March), overall GDP growth was 8.5% yr/yr, against an official forecast of 8.6% and original planning projection of 9%. The slowdown partly reflects global factors but also domestic political considerations and tightening monetary (ten increases in interest rates in 18 months) and fiscal stances, which have combined to dampen somewhat the outlooks for consumption and investment. Wholesale prices were up 9% yr/yr in May (8.6% in April), reflecting continuing high prices for fuels (12.3%) and foodstuffs (8.4%). Moreover, state-owned oil companies increased gasoline prices in April, so wholesale price inflation is unlikely to ease substantially in coming months, even though food price pressures should provide some respite, following adequate monsoon rains. At end-May, and with wholesale prices the main official gauge of inflation, the Reserve Bank of India (RBI, central bank) increased its benchmark interest rates by 25bps, with the repo now 7.5% and reverse repo 6.5%. As well as continuing with a tightening monetary stance, the RBI announced an altered monetary policy framework, with the repo rate as the main policy benchmark and the reverse repo now remaining fixed at 100bps below the repo. This is intended to maintain further tight control over liquidity. Inflation and inflationary expectations (not economic growth), are the key policy targets for now, so we expect further monetary policy tightening this year and for this to moderate (but not curtail) domestic demand even further. In April, state assembly elections were held in West Bengal, Assam, Tamil Nadu and Kerala and the territory of Puducherry. As well as revealing paro-

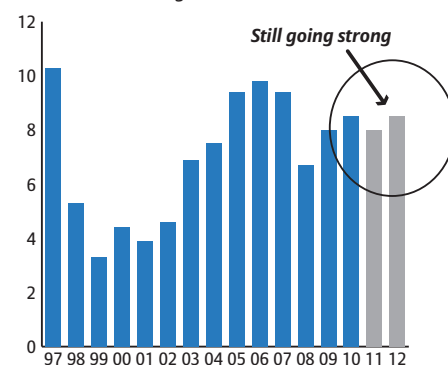
chial issues (the Communist Party lost control of West Bengal), the poll results indicated that the electorate remains broadly supportive of the national Congress-led government of PM Manmohan Singh, which is having to defend itself against corruption allegations and perceptions of failure to stem inflationary pressures. Meanwhile, initial results from the national census show a population (1.21bn) that increased by 181mn in the last decade and is expected to overtake that of China by 2030.

...but growth should still be around 8% in 2011 and 2012

High energy and food prices, combined with recent monetary tightening, are likely to slow the momentum of industrial growth in H2 of FY2011/12. However, industrial output increased by 7.3% yr/yr and 16.6% mo/mo in March, up from a revised 3.7% yr/yr in February. Manufacturing—accounting for around 80% of total industrial output—increased by 7.9% yr/yr in March and output of capital goods by 12.9%. PMI data also continue to indicate sound growth prospects. Accordingly, and even with moderately subdued domestic demand and an uncertain global trajectory, India is forecast to maintain a GDP growth rate of around 8% in FY2011/12. For FY2012/13, GDP expansion is forecast at around 8.5%, supported by continuing domestic consumption and investment growth and with a boost from government spending. Despite the latter, the overall fiscal deficit (state, as well as central government) should be reduced through improved revenue generation. We also forecast that the current account deficit will be reduced to around 2% of GDP in 2012, although much depends on international oil prices as around 25-30% of the import bill comprises energy products. **AA**

GDP

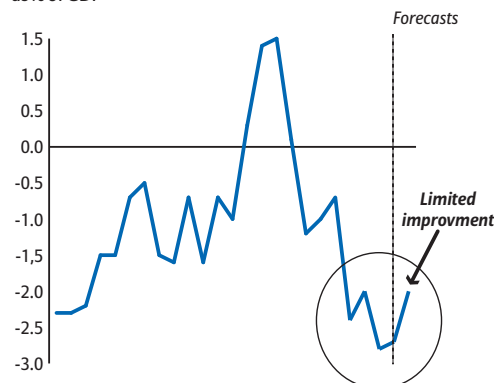
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts CRU

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts CRU

Economic Forecasts

INDIA	2009	2009	2010	2011	2012
GDP	100%	8.0	8.5	8.0	8.5
Consumer Spending	58%	7.3	8.2	7.0	7.0
Public Spending	12%	16.4	2.6	2.5	5.0
Investment	33%	7.3	8.4	8.4	9.0
Stocks*	1%	0.2	-0.1	0.3	0.4
Exports	21%	-5.5	12.0	11.7	11.9
Imports	26%	-1.8	6.3	8.1	8.2
Net exports*	-4%	-0.8	0.7	0.5	0.4
Current account **		-1,289	-2,245	-2,500	-2,100
Current account (% of GDP)		-2.0	-2.8	-2.7	-2.0
Unemployment rate		10.7	10.8	10.6	10.3
Inflation		2.1	9.4	8.0	5.5
General government balance **		-6,710	-7,290	-6,240	-5,500
General government bal. (% of GDP)		-10.2	-9.3	-6.8	-5.3
Public debt (% of GDP)		56	51	50	48
Nominal GDP	**	65,503	78,780	91,300	104,200

Russia

V-shaped recovery

Moderate growth ...

Real GDP grew by 4% in 2010. The V-shaped recovery from the 7.8% contraction of GDP in 2009 was led by domestic demand, especially inventory re-stocking which pushed up gross capital formation by 28.4%. Gross investment grew by 6.1%, consumer spending by 3.0% and public spending by 1.4%. Although export growth recovered to 7.8%, a much stronger rebound of imports, by 28.1%, resulted in a negative contribution to GDP growth from net trade. Sectoral data suggest that this growth pattern has continued by and large in early 2011, with Q1 real GDP increasing by 4.1% yr/yr and 1.1% qtr/qtr sa. Early indicators for Q2 show a mixed picture. On the one hand, the manufacturing PMI has plunged to a 14-month low in May and industrial output growth has declined to an average 4.3% yr/yr in April-May from 5.9% in Q1 and 6.5% in Q4 2010. On the other hand, the service-sector PMI has indicated an accelerating pace of business activity in April and May 2011, after three consecutive months of decline. Owing to drought-related food price increases in Q3 2010, annual inflation has accelerated from a record low of 5.5% in July 2010 to 8.7% in December and a stable 9.6% in the first five months of 2011. To counter the inflationary pressures, the central bank has raised the benchmark refinancing rate, by 25bps each in February and May 2011, to 8.25% and also lifted bank's reserve requirements several times in 2011. Still, nominal borrowing costs for firms have continued to fall – the average rate on short-term RUB loans to firms fell to 8.7% in Q1 2011 from 10% in Q3 2011 – and private sector credit growth has accelerated to 15.5% yr/yr in Q1 from 8.3% in Q3. The RUB has appreciated by around 4.5% against the USD-EUR basket in H1 2011. The fiscal deficit narrowed faster than projected

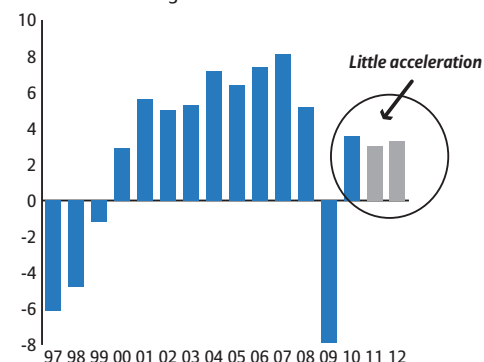
from 6.3% of GDP in 2009 to 3.6% in 2010 thanks to higher than expected oil revenues. Public debt fell to just 10% of GDP. The external position continues to be favourable. The current account surplus widened to 4.9% of GDP in 2010 and in Q1 2011, it was almost unchanged from a year earlier. Official foreign exchange reserves stood at a healthy USD468bn in May 2011, sufficient to cover 16 months of imports and more than three times all external debt payments falling due in the next 12 months. Gross external debt was adequate in relation to GDP (34%) or export earnings (113%) at end-2010.

... will be sustained thanks to election-related fiscal spending

The economy is forecast to maintain its recent momentum in 2011-2012, resulting in annual growth of just above 4%. Consumer and public spending is expected to pick up in H2 2011 thanks to cheaper credit and election-related fiscal stimulus – legislative elections are scheduled for December 2011 and presidential for March 2012 – while inventory re-stocking should moderate and net trade will continue to have a negative impact on growth. Inflation is projected to average about 9% in 2011 and 7% in 2012. The exchange rate of the RUB should remain within the 26-41 trading band against the USD-EUR basket this year. The fiscal deficit is forecast to decline further to about 3% of GDP in 2011 and 1.5% in 2012. The annual current account surplus is expected to come in at 4-5% of GDP in 2011-2012. While the overall external debt burden will remain manageable, some companies may still have problems to refinance maturing external debt. Generally, the over-reliance on commodities, especially on oil and gas, as well as the persistent weakness of the banking sector continue to make the economy vulnerable to external shocks. MS

GDP

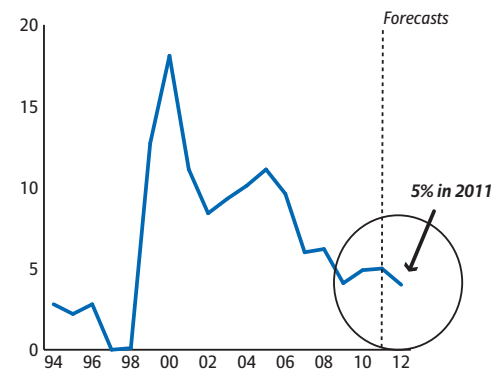
GDP in % annual average



Sources: IHS Global Insight, Euler Hermes forecasts CRU

Current account balance

as % of GDP



Sources: IHS Global Insight, Euler Hermes forecasts CRU

Economic Forecasts

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

RUSSIA	2009	2009	2010	2011	2012	
GDP	100%	-7.8	4.0	4.1	4.2	
Consumer Spending	62%	-4.8	3.0	5.2	5.0	
Public Spending	16%	0.2	1.4	3.5	2.5	
Investment	23%	-14.4	6.1	4.0	8.0	
Stocks	*	-2%	-12.9	5.6	1.5	0.5
Exports	35%	-4.8	7.8	4.5	4.5	
Imports	32%	-30.9	28.1	12.0	10.0	
Net exports	*	3%	11.4	-5.1	-2.1	-1.7
Current account	**	1,571	2,193	2,549	2,274	
Current account (% of GDP)		4.1	4.9	5.0	4.0	
Employment		-0.9	1.2	1.0	0.8	
Unemployment rate		8.2	7.2	6.5	5.7	
Wages		-2.8	4.0	4.4	4.1	
Inflation		11.7	6.9	9.0	7.0	
General government balance**		-2,448	-1,601	-1,555	-827	
General government bal. (% of GDP)		-6.3	-3.6	-3.0	-1.5	
Public debt (% of GDP)		11	10	10	9	
Nominal GDP	**	38,786	44,939	50,984	56,843	



Spotlight

on Country Risk

World leader in credit insurance, the Euler Hermes group continuously monitors country risk across the globe, combining a political and economic approach with a structural and short-term climate approach. This produces four Country Risk levels, from the safest to potentially the most risky. We offer here a detailed table of Country Risk levels for the world's major countries and territories (out of 245 rated) and a mapping for developing and emerging economies.

The evaluation of the overall level of Country Risk is based on a central element, the Country Grade, a measure of transfer and convertibility risk and of the quality of the business climate, which is determined by a combination of three analyses:

► **The Macroeconomic Rating (ME).**

based notably on analysis of: the structure of the economy, budgetary and monetary policy, indebtedness, the external balance, along with the stability of the banking system and other factors.

► **The Structural Business Environment Rating (SBE).**

based on perceptions of the regulatory and legal framework, control of corruption and relative ease of doing business.

► **The Political Risk Rating (P).**

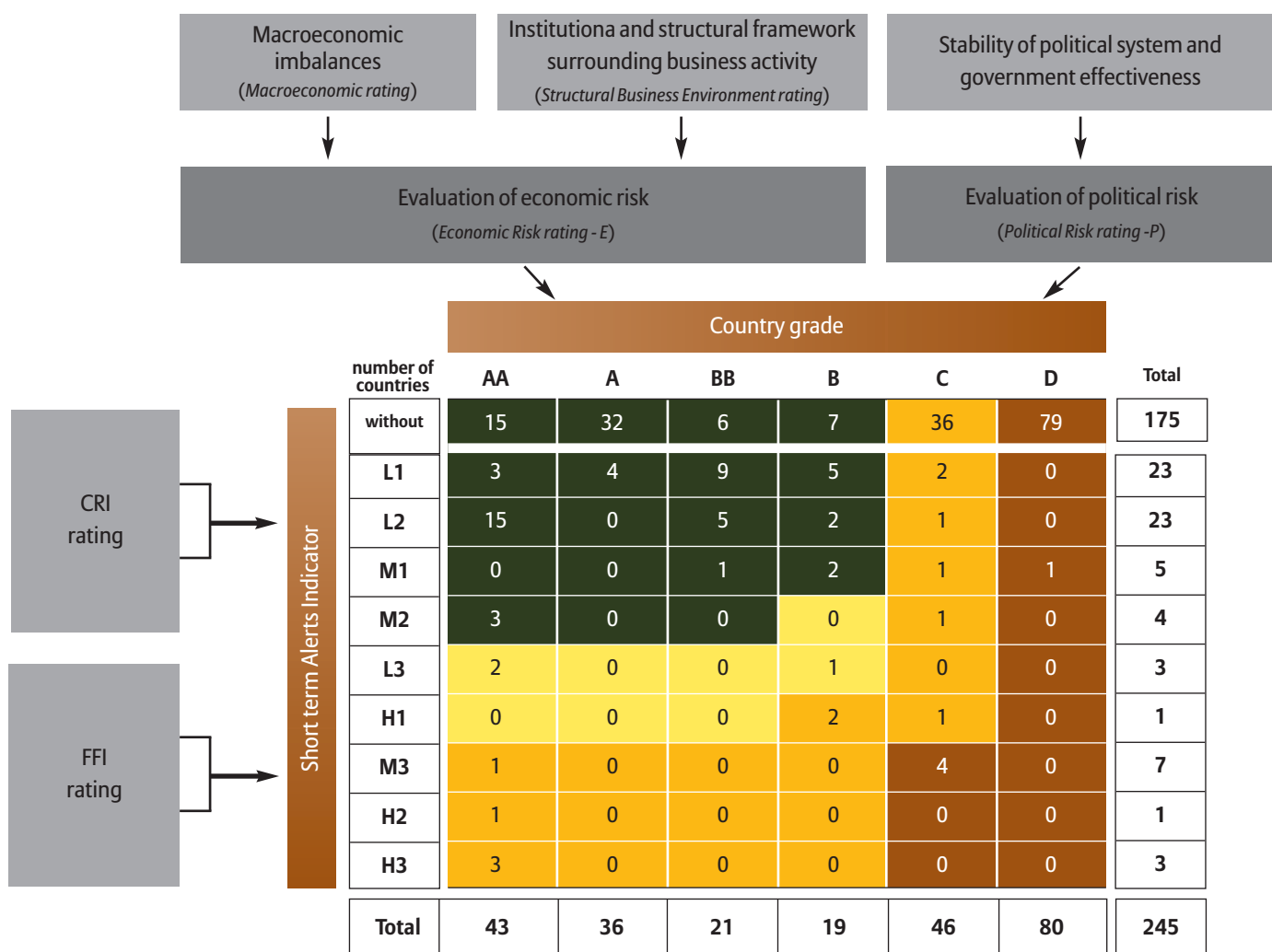
based notably on analysis of: the mechanisms for transferring of power and the processes for succession, the concentration of power, the effectiveness of policy, the independence of institutions, social cohesion, international relations, etc.

The first two elements (the ME Rating and the SBE Rating) are the two components used to calculate the Economic Risk Rating (E) assigned to each country. This latter is, in turn, combined with the Political Risk Rating (P) to make our Country Grade, on a six-level scale running from AA to D, in which AA is the lowest level of country grade and D is the highest.



This Country Grade is then combined, for the 70 biggest economies, with the Short Term Alerts Indicator, this latter being a combined measure of a country’s vulnerability in the short term to financing risk (Financial Flows Indicator, or FFI) and cyclical risk (Cyclical Risk Indicator, or CRI).

The four levels of the overall country risk are the result of grouping into four classes of the different possible combinations of the Country Grade and, as the case may be, of the Short Term Alerts Indicator, on a scale of low, medium, sensitive and high.



Source: Euler Hermes, end of June 2011

The four level of country risk :

- Low risk
- Medium risk
- Sensitive risk
- High risk

Spotlight
on Country Risk

Middle East and North Africa

Regional growth will slow to 2.7% in 2011 and 3.8% in 2012 (annual average 5%+ in 2003-08), although political uncertainties provide downside risks.

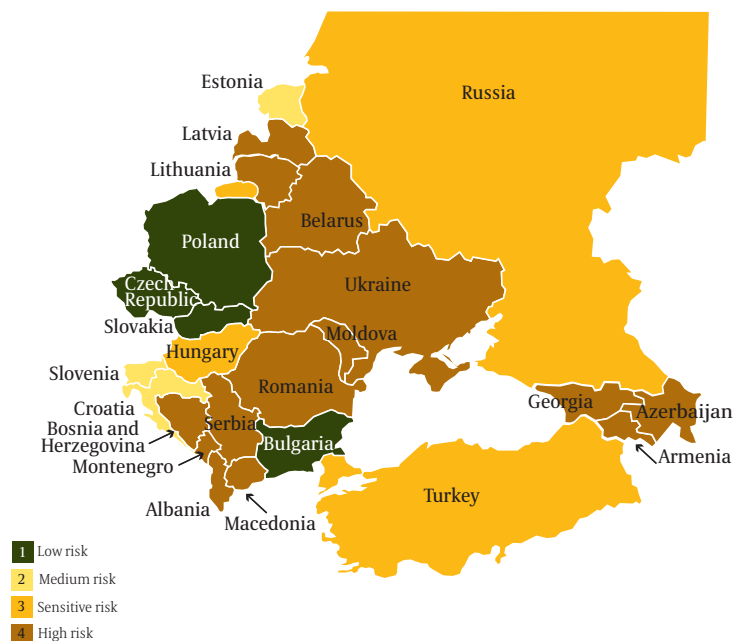
High oil prices will widen the gap between growth for energy exporters (including Saudi Arabia, Kuwait and UAE) and energy-importers (such as Jordan and Morocco). Political transitions in Egypt and Tunisia remain fragile, the economies of Libya and Yemen will contract because of violent unrest and potential for regime change and the outlook for Syria is adversely affected by its current domestic conflict. Morocco held a referendum on political reforms, which the electorate overwhelmingly endorsed, but some low-key and peaceful protests may continue. Countries in transition to more open political environments have received pledges of financial support from international and bilateral agencies but Egypt has indicated that it will not take up a USD3bn IMF facility, for now, preferring to tap domestic (and perhaps regional) sources._



Central, Eastern Europe and Russia

Regional GDP growth remained robust in Q1, driven by exports and inventories in most countries.

However, domestic demand has been a key source of growth in Poland and Turkey, though the latter shows worrisome signs of overheating, in particular rapid domestic credit growth and a ballooning current account deficit. In Belarus, economic overheating has already culminated in a currency crisis. Domestic demand has also recovered earlier than expected and supported strong Q1 growth in Estonia and Lithuania. Croatia was the only economy that continued to contract in Q1. Current IMF programmes in place are on track in Latvia and Romania but appear to be off track in Ukraine and Bosnia and Herzegovina. Inflation has been accelerating across the region and some monetary tightening is to be expected in H2. Bulgaria was upgraded to country grade B. Regional GDP growth is forecast at around 4% in both 2011 and 2012, after 4.2% in 2010._



Latin America and Caribbean

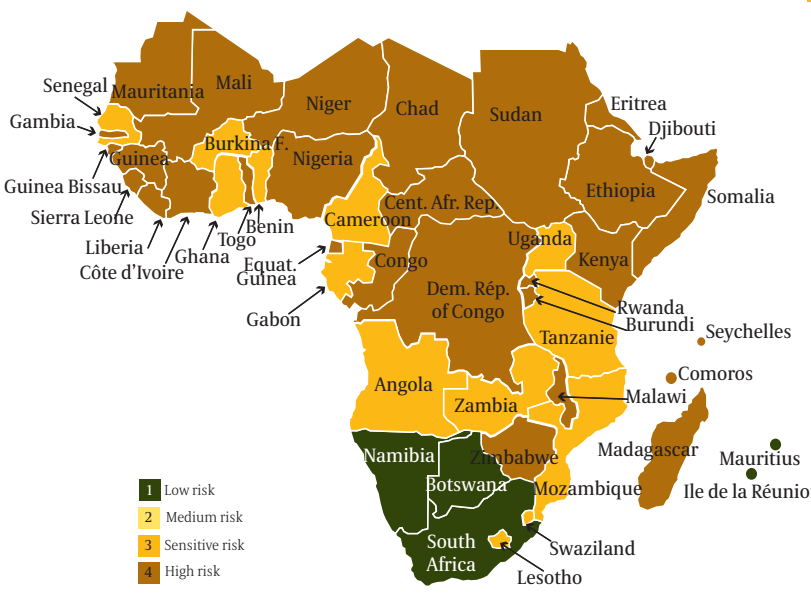
Regional GDP growth will slow in 2011 to 4.2% (5.9% 2010). Policy tightening is evident in Brazil, Colombia, Peru and Chile in the face of strong domestic demand and accelerating inflation.

All four remain robust, though commodity prices remain an important influence. Also, Peru will have a new government following elections that were won by nationalist/leftist Ollanta Humala. There is some uncertainty over policies as a result, though the president-elect aligned himself with the region's pragmatic left ahead of the elections, shifting away from his earlier more radical stance. Economic recovery continues in Mexico and inflation has remained relatively subdued. In Argentina, presidential elections will be held in October. President Fernandez de Kirchner will be standing for a second consecutive term and is well placed to win, according to recent opinion polls. In Venezuela, there is speculation over the health of President Chavez. Colombia's country grade was raised to BB from B. à BB._



Sub-saharan Africa

Direct contagion from unrest in MENA has been limited, to date. A series of protests by civilian and military groups in Burkina Faso raises uncertainty about governance in that country. In Côte d'Ivoire, president-elect Ouattara took full control of power in April after a four-month violent power struggle, but the latter reinforced ethnic and religious divisions in the country (also evident in Nigeria and elsewhere), making national reconciliation a key challenge. Tensions persist as Sudan, Africa's largest country, approaches an agreed secession. Overall, regional real GDP growth is forecast at 5-6% in 2011 and 2012, suggesting a relatively quick recovery from a recent nadir of 0.9% growth in 2009, although not yet back to the 2003-08 average of 7%+. Non-oil economies (including Ethiopia and Kenya) and oil exporters (including Nigeria and Angola) will contribute positively to overall growth, spurred by foreign investment from those economies seeking to tie-in LT commodity supplies._



Spotlight on Country Risk

South, Central and East Asia

China's economy is slowing as policy tightening efforts begin to have an effect, but growth in 2011 should still be around 9% and inflation should soon begin to moderate.

Taiwan's growth was stronger than expected in the early months of 2011, a positive for President Ma Ying-jeou, who is seeking re-election in January 2012. ASEAN growth will slow to 5% in 2011 and 5.4% in 2012 (7.6% in 2010) amid policy tightening. In Thailand, Q1 growth was just 3% yr/yr and political uncertainty will continue after legislative elections called for early July. In Vietnam, the authorities are struggling to maintain external balance and satisfactory growth of GDP. In South Korea, annual growth is forecast to slow to about 4% in 2011-2012 from 6.2% in 2010. India's key economic policy directive is to moderate inflationary pressures and a tightening monetary stance is slowing growth. Nonetheless, GDP is still forecast to expand by around 8% annually in 2011-12._



Spotlight

on Country risk

Population, GDP and risk indicators

	POPULATION 2010 (millions)	% OF WORLD	GDP 2010 \$ billions	% OF WORLD	GDP 2010 PER CAPITA in \$	GDP 2010 PER CAPITA in \$ ppp	Country grade**	FFI **	CRI **	Country risk level **
North America	344.2	5.0	16,231.9	25.9	47,161	46,452	AA*	-	-	-
USA	310.0	4.5	14,657.8	23.3	47,284	47,284	AA	L	2	low
Canada	34.1	0.5	1,574.1	2.5	46,215	39,057	AA	L	1	low
Western Europe	409.5	6.0	15,987.1	29.2	39,045	33,989	AA*	-	-	-
Germany	81.6	1.2	3,315.6	5.3	40,631	36,033	AA	L	2	low
France	63.0	0.9	2,582.5	4.1	41,019	34,077	AA	L	2	low
UK	62.2	0.9	2,247.5	3.6	36,120	34,920	AA	M	2	low
Italy	60.3	0.9	2,055.1	3.3	34,059	29,392	AA	M	2	low
Spain	46.0	0.7	1,409.9	2.2	30,639	29,742	AA	H	2	sensitive
Netherlands	16.6	0.2	783.3	1.2	47,172	40,765	AA	L	2	low
Switzerland	7.8	0.1	523.8	0.8	67,245	41,663	AA	L	2	low
Belgium	10.9	0.2	465.7	0.7	42,629	36,100	AA	L	2	low
Sweden	9.3	0.1	455.8	0.7	48,874	38,031	AA	L	1	low
Norway	4.9	0.1	414.5	0.7	84,446	52,013	AA	L	2	low
Austria	8.4	0.1	376.8	0.6	44,985	39,634	AA	L	2	low
Denmark	5.5	0.1	310.8	0.5	56,145	36,450	AA	L	2	low
Greece	11.2	0.2	305.4	0.5	27,301	28,434	AA	H	3	sensitive
Finland	5.4	0.1	239.2	0.4	44,492	34,585	AA	L	2	low
Portugal	10.6	0.2	229.3	0.4	21,558	23,223	AA	H	3	sensitive
Ireland	4.5	0.1	204.3	0.3	45,686	38,550	AA	H	3	sensitive
Luxembourg	0.5	0.0	55.0	0.1	108,812	81,383	AA	L	2	low
Iceland	0.3	0.0	12.6	0.0	38,991	36,621	D	-	-	high
Japan	127.5	1.9	5,458.9	8.7	42,820	33,805	AA	M	3	sensitive
South, Central and East Asia	3,734.3	54.5	11,490.0	15.2	3,077	5,576	B*	-	-	-
China	1,341.4	19.6	5,878.3	9.3	4,382	7,519	B	L	1	low
India	1,215.9	17.7	1,538.0	2.4	1,265	3,339	B	L	1	low
Korea (South)	48.9	0.7	1,007.1	1.6	20,591	29,836	BB	L	1	low
Indonesia	234.4	3.4	706.7	1.1	3,015	4,394	C	L	1	sensitive
Taiwan	23.3	0.3	430.6	0.7	18,458	35,227	A	L	1	low
Thailand	63.9	0.9	318.9	0.5	4,992	9,187	B	L	1	low
Malaysia	28.3	0.4	238.0	0.4	8,423	4,754	A	L	1	low
Hong Kong	7.1	0.1	225.0	0.4	31,593	45,736	A	L	1	low
Singapore	5.2	0.1	222.7	0.4	43,117	56,522	AA	L	1	low
Philippines	94.0	1.4	188.7	0.3	2,007	3,737	B	L	1	low
Pakistan	166.6	2.4	174.9	0.3	1,050	2,791	D	-	-	high
Kazakhstan	15.6	0.2	138.4	0.2	8,883	12,603	D	-	-	high
Bangladesh	164.5	2.4	104.9	0.2	638	1,572	D	-	-	high
Vietnam	88.3	1.3	103.6	0.2	1,174	3,134	D	-	-	high
Sri Lanka	20.4	0.3	49.7	0.1	2,435	5,220	C	-	-	sensitive
Myanmar	61.2	0.9	43.0	0.1	702	250	D	-	-	high
Uzbekistan	28.2	0.4	39.0	0.1	1,380	3,039	D	-	-	high
Nepal	28.2	0.4	15.8	0.0	562	1,271	D	-	-	high
Afghanistan	30.2	0.4	15.6	0.0	517	907	D	-	-	high
Brunei	0.4	0.0	13.0	0.0	31,228	48,892	BB	-	-	low
Cambodia	14.3	0.2	11.6	0.0	814	2,112	D	-	-	high
Laos	6.4	0.1	6.3	0.0	984	2,436	D	-	-	high
Mongolia	2.8	0.0	6.1	0.0	2,227	4,006	D	-	-	high
Tajikistan	7.6	0.1	5.6	0.0	741	1,935	D	-	-	high
Kyrgyzstan	5.3	0.1	4.6	0.0	864	2,248	D	-	-	high
Maldives	0.3	0.0	1.9	0.0	5,844	1,010	D	-	-	high
Bhutan	0.7	0.0	1.4	0.0	1,978	5,430	C	-	-	sensitive
Timor Leste	1.1	0.0	0.6	0.0	589	2,861	D	-	-	high

* average Structural Country Grade using GDP weighting ** as of 28 June 2011 (see methodology pages 40-41)

Source: Euler Hermes

Population, GDP and risk indicators

	POPULATION 2010 (millions)	% OF WORLD	GDP 2010 \$ billions	% OF WORLD	GDP 2010 PER CAPITA in \$	GDP 2010 PER CAPITA in \$ ppp	country grade**	FFI **	CRI **	Country risk level **
Latin America	569.3	8.3	4,832.3	7.0	8,488	11,168	B*	-	-	-
Brazil	193.3	2.8	2,090.3	3.3	10,816	11,239	BB	L	1	low
Mexico	108.6	1.6	1,039.1	1.7	9,566	14,430	BB	L	1	low
Argentina	40.5	0.6	370.3	0.6	9,138	15,854	D	M	1	high
Venezuela	29.2	0.4	290.7	0.5	9,961	11,829	D	-	-	high
Colombia	45.5	0.7	285.5	0.5	6,273	9,566	BB	L	1	low
Chile	17.2	0.3	203.3	0.3	11,828	15,002	A	L	1	low
Peru	29.6	0.4	152.8	0.2	5,172	9,330	BB	L	1	low
Ecuador	14.8	0.2	58.9	0.1	3,984	7,776	D	-	-	high
Dominican Republic	9.9	0.1	51.6	0.1	5,228	8,836	C	M	1	sensitive
Guatemala	14.4	0.2	41.5	0.1	2,888	4,885	B	L	2	low
Uruguay	3.4	0.0	40.3	0.1	11,996	14,296	B	-	-	low
Costa Rica	4.6	0.1	35.8	0.1	7,843	11,216	B	M	1	low
Panama	3.5	0.1	26.8	0.0	7,592	12,578	B	L	1	low
El Salvador	5.9	0.1	21.7	0.0	3,701	7,430	B	-	-	low
Trinidad & Tobago	2.2	0.0	20.6	0.0	9,241	-	BB	L	2	low
Bolivia	10.4	0.2	19.4	0.0	1,858	4,592	D	-	-	high
Paraguay	6.4	0.1	18.5	0.0	2,886	5,202	C	-	-	sensitive
Honduras	7.6	0.1	15.3	0.0	2,016	4,417	C	-	-	sensitive
Jamaica	2.7	0.0	13.7	0.0	5,040	8,727	D	-	-	high
Bahamas	0.3	0.0	7.5	0.0	21,849	25,895	BB	-	-	low
Central and Eastern Europe	411.6	6.0	3,866.3	7.1	9,392	14,149	C*	-	-	-
Russia	140.4	2.0	1,465.1	2.3	10,437	15,837	C	L	2	sensitive
Turkey	71.3	1.0	741.9	1.2	10,399	13,464	C	H	1	sensitive
Poland	38.1	0.6	468.5	0.7	12,300	18,936	BB	L	1	low
Czech Republic	10.5	0.2	192.2	0.3	18,288	24,869	BB	L	2	low
Romania	21.4	0.3	161.6	0.3	7,542	11,860	C	M	3	high
Ukraine	45.5	0.7	136.4	0.2	3,000	6,712	D	-	-	high
Hungary	10.0	0.1	129.0	0.2	12,879	18,738	C	M	2	sensitive
Slovak Republic	5.4	0.1	87.5	0.1	16,105	22,129	AA	L	2	low
Croatia	4.4	0.1	60.6	0.1	13,720	17,684	B	L	3	medium
Belarus	9.4	0.1	54.7	0.1	5,800	13,909	D	-	-	high
Azerbaijan	9.0	0.1	54.4	0.1	6,008	10,033	D	-	-	high
Slovenia	2.0	0.0	47.8	0.1	23,711	28,030	AA	L	3	medium
Bulgaria	7.5	0.1	47.7	0.1	6,334	12,851	B	L	2	low
Serbia	7.4	0.1	38.7	0.1	5,234	10,830	D	-	-	high
Lithuania	3.3	0.0	36.4	0.1	11,043	17,185	C	M	3	high
Latvia	2.2	0.0	24.0	0.0	10,696	14,460	C	M	3	high
Cyprus	0.8	0.0	23.2	0.0	28,227	28,256	AA	M	2	low
Estonia	1.3	0.0	19.8	0.0	14,838	18,519	AA	L	3	medium
Bosnia-Herzegovina	3.9	0.1	16.8	0.0	4,319	7,782	D	-	-	high
Albania	3.2	0.0	11.8	0.0	3,677	7,453	D	-	-	high
Georgia	4.4	0.1	11.7	0.0	2,658	5,114	D	-	-	high
Armenia	3.3	0.0	9.4	0.0	2,846	5,110	D	-	-	high
Macedonia	2.1	0.0	9.1	0.0	4,430	3,083	D	-	-	high
Malta	0.4	0.0	8.3	0.0	19,733	6,953	AA	L	2	low
Moldova	3.6	0.1	5.8	0.0	1,630	3,083	D	-	-	high
Sub-Saharan Africa	852.0	12.4	1,129.3	1.6	1,326	2,502	C*	-	-	-
South Africa	49.9	0.7	357.3	0.6	7,158	10,498	BB	M	1	low
Nigeria	156.1	2.3	216.8	0.3	1,389	2,422	D	-	-	high
Angola	19.1	0.3	85.3	0.1	4,478	5,632	C	-	-	sensitive
Sudan	40.1	0.6	68.4	0.1	1,705	2,492	D	-	-	high
Kenya	39.7	0.6	32.2	0.1	809	1,662	D	-	-	high
Ghana	23.7	0.3	31.1	0.0	1,312	2,615	C	-	-	sensitive

* average Structural Country Grade using GDP weighting ** as of 28 June 2011 (see methodology pages 40-41)

Source: Euler Hermes

Spotlight
on Country risk

Population, GDP and risk indicators

	POPULATION 2010 (millions)	% OF WORLD	GDP 2010 \$ billions	% OF WORLD	GDP 2010 PER CAPITA in \$	GDP 2010 PER CAPITA in \$ ppp	country grade**	FFI **	CRI **	Country risk level **
Ethiopia	84.8	1.2	29.7	0.0	350	1,016	D	-	-	high
Côte d'Ivoire	22.0	0.3	22.8	0.0	1,036	1,681	D	-	-	high
Tanzania	41.3	0.6	22.7	0.0	548	1,413	C	-	-	sensitive
Cameroon	20.4	0.3	22.5	0.0	1,101	2,170	C	-	-	sensitive
Uganda	34.0	0.5	17.0	0.0	501	1,241	C	-	-	sensitive
Zambia	13.3	0.2	16.2	0.0	1,221	1,512	C	-	-	sensitive
Equatorial Guinea	1.3	0.0	14.5	0.0	11,032	18,143	D	-	-	high
Botswana	1.8	0.0	14.0	0.0	7,629	15,489	B	-	-	low
Congo (Democratic Rep Of)	70.5	1.0	13.1	0.0	186	328	D	-	-	high
Gabon	1.5	0.0	13.1	0.0	8,727	15,021	C	-	-	sensitive
Senegal	13.1	0.2	12.9	0.0	981	1,819	C	-	-	sensitive
Namibia	2.1	0.0	11.9	0.0	5,653	6,953	B	-	-	low
Congo (People'S Rep Of)	3.9	0.1	11.5	0.0	2,983	4,427	D	-	-	high
Mozambique	21.6	0.3	9.9	0.0	458	1,010	C	-	-	sensitive
Mauritius	1.3	0.0	9.7	0.0	7,595	14,097	BB	-	-	low
Mali	13.4	0.2	9.3	0.0	692	1,250	D	-	-	high
Burkina Faso	14.7	0.2	8.8	0.0	598	1,360	C	-	-	sensitive
Madagascar	21.3	0.3	8.3	0.0	392	4,006	D	-	-	high
Chad	10.2	0.1	7.8	0.0	768	1,698	D	-	-	high
Zimbabwe	12.6	0.2	7.5	0.0	594	434	D	-	-	high
Benin	9.6	0.1	6.6	0.0	689	1,451	C	-	-	sensitive
Rwanda	10.0	0.1	5.6	0.0	562	1,217	D	-	-	high
Niger	14.6	0.2	5.6	0.0	381	755	D	-	-	high
Malawi	15.7	0.2	5.1	0.0	322	10,742	D	-	-	high
Guinea (Rep Of)	10.3	0.2	4.6	0.0	448	1,046	D	-	-	high
Mauritania	3.2	0.0	3.8	0.0	1,195	2,093	D	-	-	high
Swaziland	1.2	0.0	3.6	0.0	3,060	5,227	C	-	-	sensitive
Togo	7.0	0.1	3.2	0.0	459	858	D	-	-	high
Lesotho	2.5	0.0	2.1	0.0	837	1,299	C	-	-	sensitive
Eritrea	5.3	0.1	2.1	0.0	398	681	D	-	-	high
Central African Rep	4.6	0.1	2.0	0.0	436	745	D	-	-	high
Sierra Leone	5.8	0.1	1.9	0.0	326	807	D	-	-	high
Cape Verde Islands	0.5	0.0	1.7	0.0	3,157	3,647	D	-	-	high
Burundi	8.3	0.1	1.5	0.0	180	411	D	-	-	high
Middle East and North Africa	373.9	5.5	2,495.3	4.0	6,675	10,080	B*	-	-	-
Saudi Arabia	26.1	0.4	443.7	0.7	16,996	23,826	BB	L	1	low
Iran	75.4	1.1	357.2	0.6	4,741	10,865	D	-	-	high
U.A.E.	5.1	0.1	301.9	0.5	59,719	48,821	BB	L	2	low
Israel	7.4	0.1	213.1	0.3	28,687	29,531	BB	L	1	low
Egypt	78.3	1.1	218.5	0.3	2,789	6,354	C	M	3	high
Algeria	36.1	0.5	160.3	0.3	4,435	6,950	C	L	1	sensitive
Kuwait	3.6	0.1	131.3	0.2	36,416	37,849	BB	L	2	low
Qatar	1.7	0.0	129.5	0.2	76,168	88,559	BB	L	2	low
Morocco	31.9	0.5	103.5	0.2	3,249	4,754	B	M	1	low
Iraq	32.0	0.5	82.2	0.1	2,564	3,538	D	-	-	high
Libya	6.6	0.1	74.2	0.1	11,314	13,805	D	-	-	high
Syria	20.6	0.3	59.3	0.1	2,877	5,208	D	-	-	high
Oman	3.0	0.0	55.6	0.1	18,658	25,439	BB	L	1	low
Tunisia	10.5	0.2	44.3	0.1	4,200	9,483	B	M	3	sensitive
Lebanon	3.9	0.1	39.2	0.1	10,043	15,193	D	-	-	high
Yemen	24.4	0.4	31.3	0.0	1,282	2,598	D	-	-	high
Oceania	35.7	0.5	1,391.2	2.0	38,945	28,640	AA*	-	-	-
Australia	22.2	0.3	1,235.5	2.0	55,590	39,699	AA	L	2	low
New Zealand	4.4	0.1	140.4	0.2	32,143	26,966	AA	L	2	low
World	6,858.0	100.0	62,882.2	100.0	9,169	10,811	A*	-	-	-

* average Structural Country Grade using GDP weighting ** as of 28 June 2011 (see methodology pages 40-41)

Source: Euler Hermes

Summary of economic forecasts

GDP, inflation (change over the period, in %), unemployment rate (in % of labour force)

■ Forecasts

Sources: IHS Global Insight, Euler Hermes forecasts

Country		2009	2010	2011	2012
USA	GDP	-2.6	2.9	2.4	2.6
	Inflation	-0.1	1.5	3.1	1.8
	Unemployment rate	9.3	9.6	8.9	8.5
	General government balance (% of GDP)	-10.4	-8.7	-9.9	-8.4
	Public debt (% of GDP)	87	96	102	106
	Current account (% of GDP)	-2.7	-3.2	-3.4	-3.3
Canada	GDP	-2.8	3.2	2.8	2.4
	Inflation	0.3	1.7	3.1	2.0
	Unemployment rate	8.3	8.0	7.6	7.1
	General government balance (% of GDP)	-5.5	-5.5	-4.1	-3.0
	Public debt (% of GDP)	83	84	84	84
	Current account (% of GDP)	-3.0	-3.1	-2.0	-1.8
Japan	GDP	-6.3	4.0	-1.0	2.7
	Inflation	-1.5	-0.6	0.3	0.2
	Unemployment rate	5.1	5.0	4.5	4.2
	General government balance (% of GDP)	-8.7	-8.1	-9.0	-8.5
	Public debt (% of GDP)	185	193	205	209
	Current account (% of GDP)	2.8	3.6	2.2	2.6
EMU	GDP	-4.1	1.7	1.9	1.6
	Inflation	0.3	1.6	2.6	1.8
	Unemployment rate	9.2	9.8	9.5	9.0
	General government balance (% of GDP)	-6.2	-5.8	-4.3	-3.6
	Public debt (% of GDP)	80	84	85	86
	Current account (% of GDP)	-0.6	-0.6	-0.8	-0.9
Germany	GDP	-4.7	3.5	3.2	1.9
	Inflation	0.3	1.3	2.3	1.9
	Unemployment rate	7.8	7.4	6.9	6.6
	General government balance (% of GDP)	-3.0	-3.3	-2.1	-1.6
	Public debt (% of GDP)	74	83	82	81
	Current account (% of GDP)	5.6	5.6	4.9	5.0
France	GDP	-2.6	1.4	1.8	1.7
	Inflation	0.1	1.5	2.0	1.6
	Unemployment rate	9.5	9.8	9.4	8.9
	General government balance (% of GDP)	-7.6	-7.0	-5.9	-5.4
	Public debt (% of GDP)	78	86	88	90
	Current account (% of GDP)	-1.5	-1.8	-2.8	-3.0
Italy	GDP	-5.2	1.2	0.9	1.0
	Inflation	0.7	1.6	2.7	1.9
	Unemployment rate	7.8	8.4	8.7	8.2
	General government balance (% of GDP)	-5.4	-4.6	-4.1	-3.4
	Public debt (% of GDP)	116	119	120	120
	Current account (% of GDP)	-2.0	-3.5	-3.7	-3.3
Spain	GDP	-3.7	-0.1	0.7	1.0
	Inflation	-0.2	2.0	2.9	2.0
	Unemployment rate	18.0	20.1	21.0	20.2
	General government balance (% of GDP)	-11.1	-9.2	-7.0	-5.8
	Public debt (% of GDP)	53	60	66	70
	Current account (% of GDP)	-5.2	-4.5	-4.4	-3.9
Netherlands	GDP	-3.9	1.8	2.0	1.6
	Inflation	1.0	1.0	2.2	1.7
	Unemployment rate	4.8	5.5	5.1	4.8
	General government balance (% of GDP)	-5.5	-5.4	-3.9	-2.3
	Public debt (% of GDP)	61	63	64	65
	Current account (% of GDP)	4.9	7.1	6.7	6.8
Belgium	GDP	-2.7	2.1	2.3	1.9
	Inflation	0.0	2.3	3.2	2.2
	Unemployment rate	7.9	8.3	7.6	7.4
	General government balance (% of GDP)	-5.9	-4.1	-3.7	-3.9
	Public debt (% of GDP)	96	97	97	98
	Current account (% of GDP)	0.4	1.4	1.0	1.6

GDP, inflation (change over the period, in %), unemployment rate (in % of labour force)

 Forecasts

Sources: IHS Global Insight, Euler Hermes forecasts

Pays		2009	2010	2011	2012
Austria	GDP	-3.4	2.1	3.0	2.1
	Inflation	0.5	1.8	3.1	1.9
	Unemployment rate	7.2	6.9	6.7	6.5
	General government balance (% of GDP)	-4.1	-4.6	-3.3	-2.8
	Public debt (% of GDP)	67	70	71	72
	Current account (% of GDP)	2.9	2.6	2.5	2.9
Finland	GDP	-8.3	3.2	3.5	2.3
	Inflation	-0.2	1.4	3.1	2.0
	Unemployment rate	8.2	8.4	8.0	7.6
	General government balance (% of GDP)	-2.6	-2.5	-1.4	-0.9
	Public debt (% of GDP)	44	48	49	49
	Current account (% of GDP)	2.3	3.1	3.1	2.7
Greece	GDP	-2.3	-4.4	-3.6	0.1
	Inflation	1.3	4.7	3.4	1.0
	Unemployment rate	9.5	12.5	15.7	16.8
	General government balance (% of GDP)	-15.4	-10.5	-8.4	-7.7
	Public debt (% of GDP)	127	143	157	162
	Current account (% of GDP)	-11.0	-10.4	-8.9	-7.3
Ireland	GDP	-7.6	-1.0	0.1	1.4
	Inflation	-1.7	-1.6	1.0	0.5
	Unemployment rate	17.1	19.3	19.2	18.9
	General government balance (% of GDP)	-14.3	-31.9	-10.0	-9.0
	Public debt (% of GDP)	64	97	113	119
	Current account (% of GDP)	-3.0	-0.7	1.1	1.7
Portugal	GDP	-2.5	1.3	-2.1	-0.5
	Inflation	-0.9	1.4	3.1	1.5
	Unemployment rate	9.6	11.0	11.6	11.9
	General government balance (% of GDP)	-10.1	-9.1	-6.0	-5.6
	Public debt (% of GDP)	83	93	99	103
	Current account (% of GDP)	-10.9	-9.9	-7.6	-5.1
UK	GDP	-4.9	1.3	1.4	1.8
	Inflation	2.2	3.3	4.0	2.6
	Unemployment rate	7.7	7.9	7.8	7.5
	General government balance (% of GDP)	-11.4	-10.4	-7.9	-7.3
	Public debt (% of GDP)	68	78	86	90
	Current account (% of GDP)	-1.7	-2.5	-2.2	-1.9
Sweden	GDP	-5.3	5.4	4.4	2.5
	Inflation	-0.3	1.5	2.9	2.2
	Unemployment rate	8.4	8.4	7.8	7.3
	General government balance (% of GDP)	-0.7	0.0	0.4	0.7
	Public debt (% of GDP)	43	40	37	35
	Current account (% of GDP)	7.0	6.3	6.7	6.3
Denmark	GDP	-5.2	2.1	1.2	1.7
	Inflation	1.3	2.3	2.6	1.6
	Unemployment rate	6.0	7.4	7.3	6.9
	General government balance (% of GDP)	-2.7	-2.7	-3.8	-3.0
	Public debt (% of GDP)	42	44	46	47
	Current account (% of GDP)	3.4	5.1	5.0	4.5
Norway	GDP	-1.6	0.3	2.4	2.5
	Inflation	2.0	2.4	1.7	2.1
	Unemployment rate	3.2	3.6	3.0	2.8
	General government balance (% of GDP)	10.7	10.6	12.3	12.5
	Public debt (% of GDP)	44	41	37	36
	Current account (% of GDP)	11.8	12.4	12.7	12.8
Switzerland	GDP	-1.9	2.6	2.2	1.9
	Inflation	-0.5	0.7	0.9	0.9
	Unemployment rate	3.7	3.8	3.2	3.1
	General government balance (% of GDP)	1.2	0.5	0.6	0.7
	Public debt (% of GDP)	41	40	39	38
	Current account (% of GDP)	11.5	14.6	13.0	13.5

World trade



Export destination markets in %

Cumulative 12 months to the end of december, 2009
Sources: IHS Global Insight, IMF

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

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

International insolvency update



Number of business insolvencies

Forecasts

Sources : sources nationales, Euler Hermes forecasts

Please refer to Euler hermes Economic Outlook 04/2011 for fuller details and comments on insolvencies

	Number				Variation			
	2009	2010	2011	2012	2009	2010	2011	2012
USA	60,837	56,282	49,000	45,200	40%	-7%	-13%	-8%
Brazil	3,041	2,414	2,410	2,480	19%	-21%	0%	3%
Canada	5,420	4,072	3,990	4,070	-12%	-25%	-2%	2%
Japan	15,480	13,321	14,000	14,400	-1%	-14%	5%	3%
China	4,448	3,715	2,970	2,670	-2%	-16%	-20%	-10%
Australia	9,437	9,601	9,950	9,600	4%	2%	4%	-4%
Korea (South)	1,998	1,570	1,420	1,480	-27%	-21%	-10%	4%
Taiwan	341	268	255	245	-58%	-21%	-5%	-4%
Hong Kong	573	438	420	415	22%	-24%	-4%	-1%
Singapore	135	142	130	130	2%	5%	-8%	0%
France	64,524	63,365	60,400	58,700	12%	-2%	-5%	-3%
Germany	32,687	31,998	29,200	27,400	12%	-2%	-9%	-6%
Switzerland	5,215	6,255	6,070	5,760	24%	20%	-3%	-5%
Austria	6,902	6,376	6,190	6,060	9%	-8%	-3%	-2%
Italy	9,400	11,400	11,600	11,200	29%	21%	2%	-3%
Spain	5,175	4,905	4,700	4,470	79%	-5%	-4%	-5%
Greece	650	810	970	950	15%	25%	20%	-2%
Portugal	3,815	4,107	4,520	4,790	29%	8%	10%	6%
UK	35,185	29,111	25,600	24,300	17%	-17%	-12%	-5%
Russia	15,473	16,009	15,800	15,400	11%	3%	-1%	-3%
Netherlands	8,040	7,268	6,950	6,450	73%	-10%	-4%	-7%
Poland	673	691	620	580	57%	3%	-10%	-6%
Belgium	9,421	9,579	9,090	8,730	11%	2%	-5%	-4%
Sweden	7,638	7,274	6,740	6,460	21%	-5%	-7%	-4%
Norway	5,013	4,435	4,200	3,900	38%	-12%	-5%	-7%
Denmark	5,710	6,461	5,700	5,300	54%	13%	-12%	-7%
Finland	3,803	3,400	3,400	3,220	30%	-11%	0%	-5%
Ireland	1,406	1,556	1,530	1,450	82%	11%	-2%	-5%
Czech Republic	1,491	1,684	1,870	1,780	34%	13%	11%	-5%
Hungary	14,636	17,700	13,500	12,700	24%	21%	-24%	-6%
Slovak Republic	784	887	700	680	35%	13%	-21%	-3%
Luxembourg	693	918	1,040	990	21%	32%	13%	-5%
Lithuania	1,844	1,631	1,400	1,300	93%	-12%	-14%	-7%
Latvia	2,149	2,574	1,800	1,650	67%	20%	-30%	-8%
Estonia	1,055	1,029	950	860	149%	-2%	-8%	-9%

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