

Consumer keeps recession at bay

Atradius Economic Outlook



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Editorial

It is striking. Last year the title of our November Economic Outlook was 'No room for policy mistakes'. About a year on these words still resound as the IMF chief economist Gita Gopinath uses exactly these in her Foreword of the IMF World Economic Outlook. It raises the question whether the IMF is behind the curve. We think not. Rather, these words are even more pressing than a year ago.

The slide of the global economy has accelerated. Global GDP growth is very weak – so weak that the R word has come up again. The main culprit is the US administration's foreign policy stance, particularly trade policy, and the sharp escalation in the trade war with China. As we argue in this Outlook, the reader can be reassured that a recession is not imminent. But it is clear that the global economy is in a very weak spot. With trade coming to a halt and investments fading, the consumer is the only one left to keep growth up.

While there are prospects for a 'phase one deal' between the US and China that could put threatened tariffs on hold, the atmosphere remains acrimonious and uncertainty will be sustained. Economic policy uncertainty has shot up since the late spring, more than doubling 2018 levels. As we see in this Outlook, this is driving businesses to postpone spending decisions across the globe. As the trade war accelerated, fixed investment growth as a percentage of GDP growth decelerated and has now almost vanished. Global manufacturing has entered a recessionary environment. Global trade growth has come to a standstill. Since the summer, 0.3 percentage points have been shaved off the global growth forecast for 2019 and 2020. In fact, consumer spending is the only thing keeping growth steady. With unemployment in the US reaching record lows and swiftly declining in the eurozone and with wage growth considerably above inflation, the consumer in the advanced economies continues to purchase goods and, even more so, services. The consumer keeps the recession at bay.

Whether that view will continue to hold is an open question. Indeed, a trade deal between the US and China, now that these countries have some kind of a truce, is not excluded. That would provide a boost for the global economy. But given the deep roots of the trade war and global economic hegemony, we do not see that coming. On the contrary, there continues to be a risk of further escalation beyond the US and China. Like Asian countries that have a trade surplus with the US, the EU might also be involved as car and car parts are on the radar of the US administration.

Meanwhile, risks of policy mistakes abound. The Fed has so far acted appropriately by leading global monetary loosening, but White House pressure on what it calls 'the enemy' continues. The scope for effective monetary stimulus seems limited anyway. China is managing a complex transformation process towards a more consumption led economy in an environment fraught with debt and burdened by the trade war. Governments are being called on to act, but in an appropriate and constrained manner. Such mistakes will make it hard for the consumer to keep the recession at bay. Indeed, the reiteration of our November 2018 warning by the IMF seems accurate. It could have even come from us.

John Loricé, Atradius Chief Economist

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Executive summary

Global economic growth is slowing and becoming increasingly fragile. As the trade war weighs in, global trade and investment are down. External-facing businesses and industries are grappling with uncertainty, but these challenges have not (yet) severely constrained private consumption. Steady domestic demand, especially in advanced economies, will be the key to avoiding recession in 2020.

Key points

- We forecast global GDP growth to expand 2.5% in both 2019 and 2020 – a remarkable slowdown from the 3.2% measured in 2018. The world trade slowdown, made worse by the US-China trade conflict, is behind the deceleration
- Eurozone GDP growth is slowing considerably to 1.1% in 2019 and 2020, from 1.9% in 2018. The US economy is also losing momentum with GDP growth easing from 2.2% in 2019 to 1.6% in 2020. With Brexit-related uncertainty ongoing, the UK will expand only slowly: 1.3% in 2019 and 1.1% in 2020
- Emerging markets are also facing a slowdown due to the weak global trade environment as well as country-specific issues. As a whole, we forecast GDP growth across EMEs to ease to 4.0% this year, from 4.7% last year, before recovering only slightly to 4.3% in 2020. Emerging Asia will continue to post the fastest growth rates as Latin America's recovery drags on
- The late-cycle downturn in the global economy is translating to an uptick in business failures. We forecast insolvencies to increase 3.0% in 2019 and by at least another 2.6% in 2020

Chapter 1 presents the global macroeconomic environment, how we expect it to develop over the remainder of 2019 and in 2020. Global GDP growth was already expected to ease in this period as US fiscal stimulus fades, but the US-China trade war is pushing it lower than previously expected. World trade is grinding to a halt as policy uncertainty stunts business investment. From 3.4% in 2018, we now forecast a contraction of 0.6% in 2019 and only a modest recovery to 1.5% in 2020. This grim outlook is on assumption of no further escalation of the trade war. Economic growth rates around the world are slowing but household consumption in North America and Europe is holding up thanks to historically strong labour markets. This should keep the

hypothetical Recession of 2020 at bay, but with growth leaning on only one contributor, it is more fragile.

There are several risks that could cause our outlook to deteriorate or even spur a recession. The most prominent risk remains that of trade war proliferation. Barriers between the US and China have escalated significantly through 2019 and while a 'phase one' deal is in place, escalation is not off the cards. An extension to new fronts, especially the EU, could drive down global growth. Related but broader, policy uncertainty has become the second largest risk. A deceleration of growth in China beyond the authorities' control is the third most significant risk followed by Fed policy missteps or miscommunication. Finally, a supply-side shock to the oil price remains a threat to our economic outlook.

Advanced economies are facing broad slowdowns in 2019 and 2020, as presented in chapter 2. Amid high uncertainty and lower global trade, trade and investment are contributing less or even contracting from GDP growth. Extremely tight labour markets and rising real wages though are underpinning household spending, which is keeping growth firmly in the black. This is the case at the eurozone level, in the US, and even the UK in the face of Brexit uncertainty. In Japan, consumers are facing domestic challenges as well due to a VAT increase, which will bring the economy to a near standstill in 2020, but government support should help avoid a contraction.

In chapter 3, the outlook for emerging markets across all major world regions is presented. EMEs are also facing slower growth in 2019 and a weaker-than-expected recovery in 2020. The weaker external environment, especially slowing demand in China, is weighing on growth but there are also major country-specific issues that are holding down growth – especially in major economies like Brazil and Turkey. Domestic demand will help some countries, especially in Eastern Europe, avoid deeper slowdowns but it is more the higher aggregate growth rates that ensure recession avoidance.

We present our insolvency outlook in chapter 4. It has deteriorated sharply in line with the global slowdown. We have long predicted that 2019 would be the turning year in the insolvency recovery cycle from the Global Financial Crisis. But with global trade facing a standstill, we have revised our forecast upwards. North America is the main contributor to higher global insolvencies but the rising trend is spanning all regions.

1. The global macroeconomic environment

Very weak GDP growth

In our May Economic Outlook, we signalled a slide in global growth, to 2.8% in 2019 as well as 2020. Six months on the sky has further darkened. We now expect the global economy to grow only 2.5% in 2019 and 2020. This is very weak GDP growth.

The current global GDP growth outlook is no less than 0.7 percentage points below the realisation of 2018. The latter level looked difficult to achieve from the outset. Increasing trade tensions between the US and China negatively affected exports and created further policy uncertainty. That in turn depressed investments. Moreover, Fed monetary tightening has also made financing conditions somewhat less favourable. Economic policy uncertainty, moreover, related to e.g. Brexit, was also up, weighing on investments. The US and (at least part of the) eurozone were running against capacity constraints. Financial markets were down and showed signs of unrest.

Table 1.1 Real GDP growth (%) - global regions

	2018	2019f	2020f
Eurozone	1.9	1.1	1.1
United States	2.9	2.2	1.6
Emerging Asia	6.0	5.3	5.2
Latin America	1.3	0.5	1.4
Eastern Europe	3.3	2.2	2.6
World	3.2	2.5	2.5

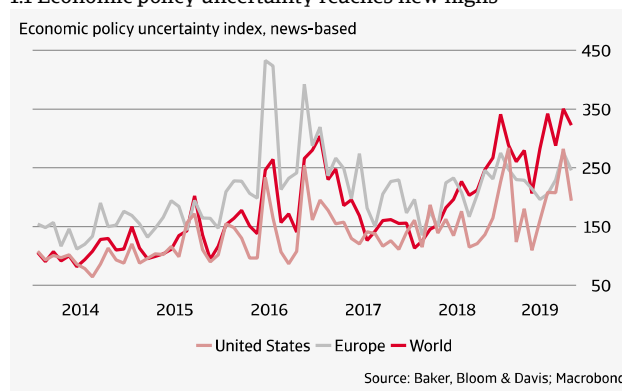
Sources: Oxford Economics, Atradius

Earlier this year some relief was expected when the US and China showed a willingness to – at least temporarily – postpone further escalation. Moreover, central banks, led by the Fed and soon followed by the ECB and others, made a U-turn by announcing a more accommodative monetary policy. China indicated it would provide stimulus to its economy. Economic policy uncertainty calmed and financial markets reacted positively. In our May Economic Outlook, we thus observed damage but at least the situation looked relatively stable.

This, however, was short-lived. In May, the US announced 25% tariffs on imports for an amount of USD 350 billion from China. China countered with levies of 20%-25% on US imports worth USD 110 billion. The blow to the global economy was initially softened as the US cancelled plans to impose tariffs on Mexican imports and agreed to resume US-Chinese trade talks. Nevertheless, the US announced tariffs on another USD 300 billion of goods. China again retaliated. Almost all imports from China will be subject to tariffs in the

US by the end of the year. Further trade war escalation looms, between the US and China and the US and the EU.

1.1 Economic policy uncertainty reaches new highs

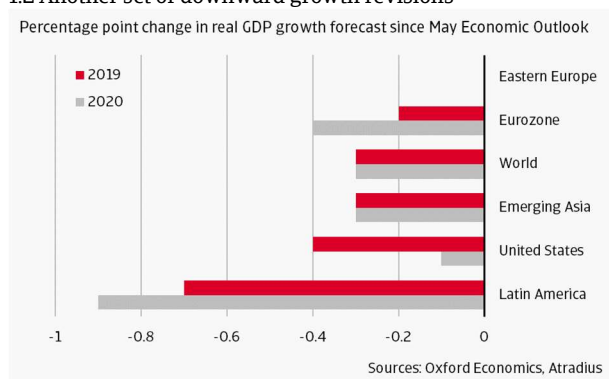


Economic policy uncertainty has consequently mounted to highs not seen in years, weighing on already declining business confidence. Global manufacturing indicators are now in negative territory, services indicators are still positive but under pressure. Investment growth has almost vanished; trade growth has come to a halt. Current growth forecasts now rely heavily on consumers to continue spending. They are in reasonably good shape: unemployment is at record lows, particularly in the US, or at least declining, like in the eurozone; wage growth is modest but is picking up. Central banks again attempt to support growth by living up to commitments to ease monetary policy. Indeed, the Fed has already cut rates three times in 2019, the ECB announced resumption of stimulus. China, for its part, has opened the taps somewhat more to stimulate its economy. The upshot is that a recession can be avoided, but growth will be very weak.

With this gloomy picture in mind, it comes as no surprise that we have markedly revised our GDP growth outlook downward since May. The latest escalation of the trade war shaves no less than 0.3 percentage points off the GDP growth outlook for 2019 and 2020. No region escapes from this. Nevertheless, the extent of the impact differs. Clearly, the US and Emerging Asia, driven by China, are hit hardest, especially in 2019. The outlook is down 0.3 percentage points in Emerging Asia and 0.4 percentage points in the US compared to May. Exporting sectors suffer from elevated tariffs and investment is under pressure. The trade shock will almost certainly still reverberate in 2020. In the US to a lesser extent given its lesser dependency on trade and the impact of monetary policy easing partly offsetting the shock (0.1 percentage point downward revision); in Emerging Asia

more prominently (0.3 percentage point). For the eurozone, the revision, of an already muted outlook, is rather minimal for 2019; a prominent factor, the German manufacturing slump, had already been factored in. For 2020, spill-overs to household consumption of this and ongoing external trade pressures will become manifest. It drags the outlook down by 0.4 percentage point. In Eastern Europe this is visible as well. Countries such as Czech Republic, Poland and Hungary are closely linked to the eurozone. However, Turkey is already heading up and will return to growth. In Latin America, country-specific issues dominate. A sharply deteriorated economic situation and renewed political upheaval in Argentina weighs on the revised regional outlook.

1.2 Another set of downward growth revisions



While these dynamics highlight the pressure on global GDP growth, its overall level at 2.5% in 2020 remains significantly above what is considered a recession. We define such a state of the world by GDP growth below the rate of population growth. This is currently 1.1% globally. In other words, GDP per capita is still growing. The regions provide a more mixed picture. Asia seems most recession-proof. The forecasted GDP growth of 5.2% for 2020 is way beyond the population growth of 0.7%. Eastern Europe's 2.6% GDP growth is markedly above its marginal 0.2% population shrink as well. The advanced economies are more at risk. Eurozone GDP grows 1.1% and has 0.2% population growth. The US economy grows at 1.6% versus 0.6% population growth. These figures imply cushions, but they do not look robust in case of a further downturn. Latin America, where the 0.6% GDP growth in 2019 is insufficient to make up for the 0.9% population growth, is indeed in a recession. That will change in 2020, when the growth forecast climbs to 2.5%¹.

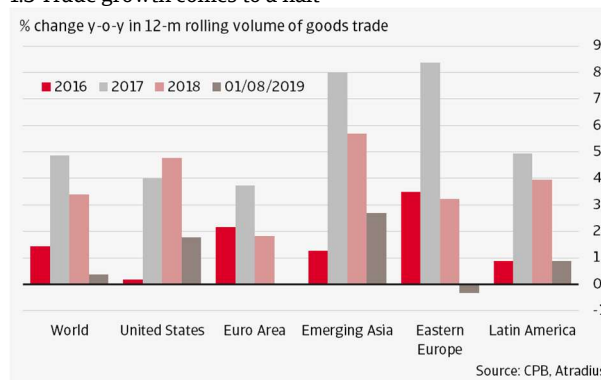
In search of trade growth

Global trade is in search of growth. We signalled that already in May, when our forecast was set at below 2.75% for 2019 with some mild recovery in 2020. These figures were already markedly down from the 3.4% in 2018. Now, six months on, and armed with dismal data up to and including August 2019, we report this forecast may even prove (far) too optimistic. We now forecast a modest contraction in global

trade in 2019 and only a very weak recovery in 2020. This is miles away from the 2018 level, let alone the long-term average of 5.5%.

Trade fell off a cliff during the first half of 2019. Global trade (volume) growth is down 2.8 percentage points at 0.4% compared to the year before². The region supposedly hardest hit by the trade war, Asia, sees trade growth falling 3 percentage points to 2.7% in 2019 compared to 2018. The decline in the US down a similar magnitude to 1.8%. Other regions, outside the epicentre of the trade war, do not escape this trend either. The sharpest decline is in Emerging Europe where the trade growth reduction is 3.5 percentage points, pushing it below zero to -0.3%. Trade growth in the eurozone has fallen 1.8 percentage points to zero. Latin America falls back 3.0 percentage points as well, to 0.9%. The trade war not only affects countries directly involved.

1.3 Trade growth comes to a halt



That picture is underlined by global trade momentum³. This indicator has been in negative territory since November 2018.⁴ It suggests we have not yet seen the bottom of the slump in trade growth. Nevertheless, regionally there is positive momentum in the eurozone suggesting the worst of the industrial downturn may be behind the region⁵. Given the escalation of the trade war over the summer, we are not yet optimistic about bright spots for international trade.

Forward-looking indicators that we track do not offer a lot of relief either. Firstly, global export orders momentum has been in negative territory since March 2018⁶. The development in investment growth does not bode well for trade growth either. If investment was to pick up relative to GDP, trade growth would receive some impetus. This is simply because fixed investments are more trade-intensive than consumption.

² Calculated using the 12-month period up to and including August 2019 compared to the same period up to August 2018.

³ Calculated by the three-month average trade volume compared to the preceding three months period average.

⁴ May 2019 was the exception. In that month momentum improved marginally, after which it fell again significantly in June.

⁵ In case of Asia, only May data are available.

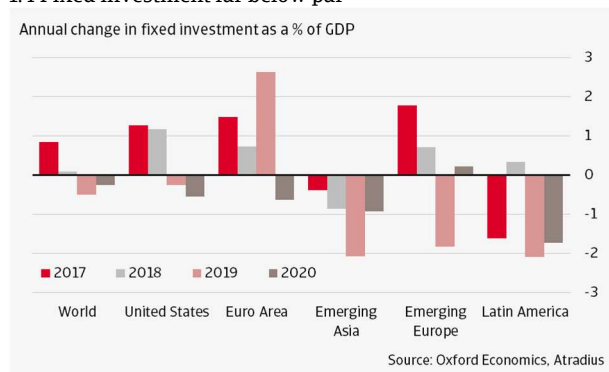
⁶ Export orders momentum is calculated similarly to the trade momentum: the average of the last three months compared to the average of the preceding three months.

¹ Population growth numbers come from the World Bank. See <https://data.worldbank.org/indicator/SP.POP.GROW>.

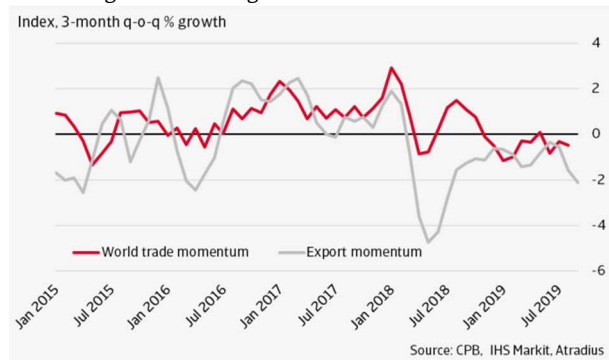
In 2019 however, we have not seen such a development. Nor do we see that in 2020. To the contrary, fixed investment is shrinking as a percentage of global GDP in 2019, giving a negative impulse to global trade. For 2020, the indicator is neutral. Notably for the US and China, the trend is negative, which for China is, however, largely due to the transformation of the economy towards being more consumption- or services-led, rather than investment-led. At least some stimulus for trade will come from the eurozone in 2019 and 2020. For China, the picture is negative. However, given the still high level of Chinese GDP growth, there is still significant investment growth as such.

Finally, the Baltic Dry Index has historically predicted a reversal in trade fortunes, such as in 2016. The upward trend of the indicator suggests it contains information that is still unknown to the rest of the economy. It reflects tightening of the cost of freight since the beginning of 2019, signalling climbing trade volumes. Therefore, optimists can argue the doom and gloom suggested by the other indicators is exaggerated. Still, caution is required. Shipping transport has been subject to a number of mergers and acquisitions that restrained shipment capacity and offered an opportunity to raise prices for merged firms. This is what underlies at least part of the increase in the index. The market therefore first needs to digest this shock before it can reliably signal changes in the fortunes of global trade again.

1.4 Fixed investment far below par



1.5 Waiting for recovering trade momentum



We therefore can only see a bleak picture of global trade development in 2019 and 2020, even if the trade war does not escalate any further. We forecast -0.6% trade growth in 2019. This is based on our own international trade

forecasting model⁷ and is confirmed by year-to-date figures. The sharp revision downward is motivated by the fact that trade would have to be 7.3% higher in the last four months of the year to reach a 2% growth figure. Even the slight recovery of 1.3% needed to reach neutral growth may be optimistic. Instead, we expect ongoing weakness to push global trade growth into negative territory for the full year. For 2020, we expect some recovery to 1.5%, again assuming no further trade war escalation.

Our trade forecast is based on currently announced tariffs. This baseline is prone to large risks, particularly to the downside. Encouraging maybe is the so-called 'phase one' trade deal in October, which has shelved imposition of higher US tariffs on imports from China, as well as Chinese retaliation, that were due on October 1. The trade war, however, clearly has not ended. The underlying conflict is not just about trade and tariffs, but also about intellectual property protection, the non-level playing field for direct investments and several aspects related to China's role in the world economy. Due to ideological differences, neither a significant de-escalation nor a comprehensive trade deal are in sight.

Trade war escalation bites

The escalation of the trade war bites into global growth due to the immediate effect of tariffs and the policy uncertainty it creates.

Before we elaborate on the impact in more detail, let us take a closer look at the escalation of the trade war as it unfolded since May. In that month, negotiations between the US and China broke down. The US announced a 25% tariff on an amount of USD 200 billion of imports from China. It was a significant increase from the 10% levied since September 2018. China retaliated by raising tariffs on USD 60 billion of US exports to 25%, up from 5%-10%. These were the steps feared in the May Outlook. It got even worse. Whereas the June G20 meeting provided some hope as negotiations resumed, early August was the moment for another escalation. The White House announced the rollout of a 10% tariff, later raised to 15%, on the remaining USD 300 billion of imports from China that had not yet been hit by tariffs. The rollout started in early September with the levy on USD 140 billion of imports. The list of products includes clothing, shoes and back-to-school items. The remaining USD 160 billion of imports regard toys, electronics and other goods typically purchased for the holiday season. These will first be hit by tariffs in December. Moreover, USD 250 billion of imports from China would face a tariff increase from 25% to 30% by October 1⁸. China responded with a hit of 5%-10% on an amount of USD 75 billion of imports from the US,

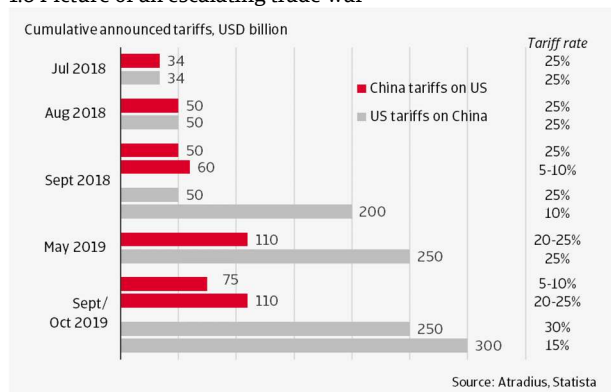
⁷ The Atradius international trade forecasting model is a so-called autoregressive distributed lag model which includes lags of trade and GDP growth.

⁸ At the time of writing the Outlook, the US had not yet imposed these higher tariffs as part of a 'truce' under which China was to purchase USD 40-50 billion of US farm goods, according to the US administration.

including cars and petroleum products. The rollout schedule of these tariffs will match the one of the US.

The result of the escalation is that 96.8% of imports from China into the US will be subject to tariffs by the end of the year. The average US tariff since the start of the trade war in early 2018 has increased sharply from 3% to above 26% at year-end. China tariffs will cover more than two-thirds of all imports from the US. Chinese tariffs have consequently gone up from 8% to 26% at year-end, on average. China is excluding aircraft, semiconductors and pharmaceutical products from the tariff list; autos are on top of it (up to 50% tariffs). China has also lowered average tariffs on imports from the rest of the world to slightly below 7%. One can therefore conclude the trade war has significantly escalated during the May-October period. The amount of US-China trade hit by tariffs has reached more than USD 700 billion. Tariff levels on both sides rose by more than 50%.

1.6 Picture of an escalating trade war



1.7 US-China bilateral trade falls of a cliff



The trade war escalation has essentially two effects on GDP growth. Firstly, it negatively affects trade flows. Simulations by the Peterson Institute of International Economics (PIIE) suggest that the drag on Chinese exports to the US from the summer escalation is almost 15%⁹. However, the country makes up for these losses by additional exports to the rest of the world, including Europe and ends up with a small export gain. The decline in US exports to China is 10%, which it does not make up for by additional exports to the rest of the

⁹ The simulation assumes a slightly milder tariff structure and scope than the current one. See Robinson, S. and Thierfelder, K., Who's Winning the US-China Trade War? It's Not the United States or China. Peterson Institute for International Economics, July 11, 2019.

world. Other countries, such as Canada, Mexico, Japan and the rest of the world have relatively small export losses due to the trade war as well. The magnitude is such that the trade war escalation negatively affects global trade. That in turn leads to a relatively small gain in GDP for China (0.06%) and a loss for the US (0.13%) as well as other countries, and an overall GDP loss as well¹⁰.

Secondly, and more importantly, the trade war creates massive policy uncertainty. It is unclear where the trade war ends. Further escalation is certainly not excluded. That regards the current trade war between the US and China, where further levies can be imposed on imports from the US currently not yet hit, such as airplanes, semiconductors and pharmaceuticals. Existing tariffs can also further be raised. Moreover, the scope of the trade war can be extended to Europe. In this context, the levies announced on USD 7.5 billion of imports from the EU as a result of the Airbus subsidies is a case in point. The EU in turn is waiting for its turn as soon as the WTO has decided on a similar complaint from the EU. Moreover, and more importantly, the White House is due to take a decision on a report of the US Department of Commerce to take action to 'adjust automotive imports' in view of an alleged national security threat. If the US imposes tariffs, car exports from the EU to the US will be put under pressure. The White House is also keeping an eye on illegal immigration from Mexico. Earlier in the summer, tariffs were announced. They were suspended after Mexico agreed to attempt reducing or even eliminating the immigration.

Policy uncertainty eats into business confidence. That in turn reduces investment and depresses trade. As long as we do not see a significant improvement in policy uncertainty, we fear global trade may only grow marginally.

Oil price too low

The big swings in the oil price that we saw in the period between late 2018 and early 2019 have abated since May. Supply concerns due to tightening of US sanctions on Iran increased prices in late spring. It was reversed during the summer after the market started realising the impact that escalation of the trade war was having on global economic developments. The price weakened to between USD 55-65 per barrel (p/b) Brent. The recent spike to USD 71 p/b after the attack on the Saudi production facilities was quickly reversed when the oil market became convinced that the supply disruption would be very limited.

Despite current market developments, we hold on to the view that we have long advocated: the long-term trend in the oil price is upward. We think global demand for oil will grow, especially in the emerging economies. It will grow to such an extent that investments in more expensive energy resources will be needed to meet demand. That growth occurs even if

¹⁰ The effect on US GDP is milder than the one calculated by Oxford Economics, viz. 0.2%. The difference could be explained by the retaliation of China over the summer, which is not included in the PIIE simulation.

an aggressive energy transformation policy is pursued worldwide – a scenario we do not expect to materialise. Then a long-term (equilibrium) price of about USD 95 p/b in 2025 will be needed. Thus, there is an underlying drift in the oil price in that direction.

Whether much of this drift will be seen during the forecast period is an open question. Indeed, given the weak state of the global economy price movements in the high 70s for Brent in 2019-2020, as we previously expected, are no longer tenable. For the time being, we predict a price in the mid- to high-60s.

Our expectation of a higher oil price is based on the following. Firstly, the rise in geopolitical risk seems underestimated. Oil markets in September withstood a textbook case of a large-scale supply disruption. The attacks on Saudi Arabian production facilities temporarily affected about 5.7 million barrels per day (mb/d) of crude oil production capacity, more than 5% of global production. On the first trading day following the attacks, after an initial spike to USD 71 p/b, prices fell back as it became clear that the damage, although serious, would not cause long-lasting disruption to production. Saudi Aramco's achievement in restoring operations and maintaining customer confidence convinced the markets¹¹. Indeed, the current Brent price is around the same level as it was prior to the attack, whilst there should be a geopolitical risk premium on top of oil prices. But there is not, which is underlined by the lack of movement in the difference between the global oil price and the local US price, the WTI. This difference should – at least partly – capture changes in (perceived) geopolitical risk.

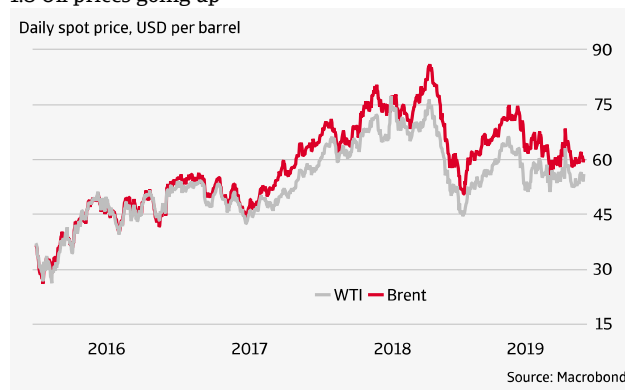
Secondly, despite the global economic situation demand for oil continues to grow. After all, the global economy is still expanding. True, the US Energy Information Agency (EIA) has cut its headline oil demand growth forecast by 0.1 mb/d for both 2019 and 2020. However, the reduction for 2019 mainly reflects a technical adjustment: new data showed higher US demand in 2018 and that has depressed the 2019 growth number. This year is seeing two very different halves. In H1, global growth was only 0.4 mb/d but in H2 it could be as high as 1.6 mb/d. Recent data lends support to the outlook: non-OECD demand growth in July and August was 1 mb/d and 1.5 mb/d respectively, with Chinese demand growing solidly by more than 0.5 mb/d y-o-y. OECD demand remains in a relatively weak state. Demand is supported by prices that are more than 30% below levels a year ago. For 2020, the outlook for oil demand has been cut back due to a weaker GDP growth forecast, but remains solid at 1.2 mb/d. Thirdly, Saudi Arabia needs an oil price just below USD 70 p/b to provide some fiscal stimulus and avoid an increase in unemployment. Saudi Arabia is still the swing producer that can affect oil prices, not the US. As opposed to the Saudi leaders, the US president is not able to turn the tap. Instead of one giant producer, Aramco, the US oil sector consists of a

¹¹ This was supported by (OECD) commercial stocks, which in August increased for the fifth consecutive month and are now at more than 3 billion at close to record levels seen during most of 2016. International Energy Agency members, moreover, hold an additional 1.6 billion barrels of strategic stocks.

high number of smaller suppliers. Moreover, costs differ. US shale producers are reportedly producing between USD 30 and USD 90 p/b, Aramco produces at just USD 30 p/b.

Our forecast of an increasing oil price is under the current assumption of no further escalation of the trade war. Now that the market seems to put such a heavy weight on demand-side developments, an escalation will put further pressure on the oil price. Meanwhile, if markets start to price in geopolitical developments more prominently, short-term volatility, such as just after the attack on Saudi Arabia, may decline. This is because the manifestation of foreseen risks are already priced in.

1.8 Oil prices going up



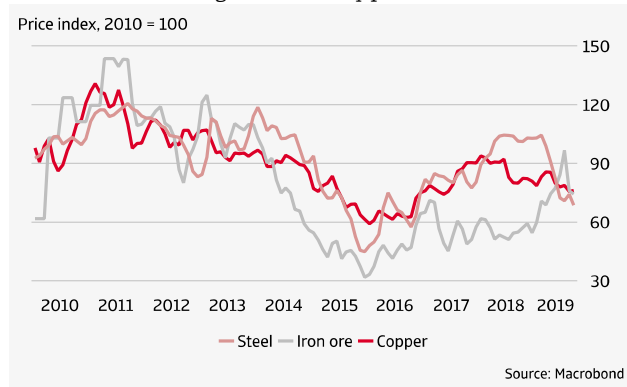
Softness in commodity prices reinforced

The recent further weakening in global demand has left its mark on commodity prices as well. In our May Outlook, we signalled prices for base metals like copper, aluminium, lead, zinc and uranium had rebounded. Prices were depressed in late 2018 after a string of negative news on economic data and US-Chinese trade tensions. The rebound reflected the truce in trade tensions, the resumption of monetary easing and Chinese stimulus to keep up its GDP growth. The LME index, which captures price changes of base metals, rose 8% in a three-month period. But this gain did not survive the summer trade war escalation either. The LME index has lost almost all gains during that period. Given that growth will remain weak during the remainder of 2019 and in 2020, prices can only be expected to move slightly sideward.

The underlying trend in commodity prices remains soft. That is due to China having reached the level of metals consumption per capita of advanced economies over a period of 20 years. During that period, its share in global consumption of metals has grown from 10% to 50%, with consumption growth markedly above GDP growth. Now that this growth period has come to an end, other emerging economies are to step in to keep demand growing, but we do not see that happening. A fast-growing country like India has a metals consumption growth equal to GDP per capita growth. The underlying global demand for commodities is now more in line with GDP growth and has therefore considerably softened. With global GDP growth being so weak, that softness is reinforced. No large price increases are

needed to trigger investments accommodating a rise in demand.

1.9 Further weakening of commodity prices



Price weakness characterises the overall picture, but some individual commodities do not follow this trend. Nickel stands out, with a price increase of almost 70% since the start of the year. It is used in batteries for electric cars, for which demand is expected to be spurred as the energy transition moves on. But more important for the price explosion is the decision of the Indonesian government to ban exports of nickel ore starting in 2020 (instead of 2022). Mines in the Philippines can only partly fill the gap and the quality of the commodity is much lower.

Other commodity prices are under pressure. Aluminium is used in increasingly popular, sustainable products like electric cars. That gives prices some support. Still, the price has declined 7% since early 2019, after a modest increase in Q1. That is due to the ample availability of the commodity, while demand is modest. The relatively strong US dollar¹² and low alumina price, used as a production input, also do not help. Similarly, the copper price has come under pressure, falling 6% in 2019. Demand support comes from wiring in electric cars, but weak global economic factors dominate demand, whereas the strong dollar leaves its mark as well. Zinc prices are even more under pressure, declining 12% in 2019, due to construction and automotive sector weakness. Recent investments have pushed up production capacity as well, leading to some oversupply. Base metals, in short, have a strong cyclical tendency. Still, supply disruptions have a high impact as well.

More structural developments take place in the market for steel, which is not a base metal. The outlook for this market is even bleaker than described in our May outlook. Prices are down more than 13% globally and down 24% in the US and 14% in the EU. Production is growing without any clear matching demand. Global steel output has risen 5% in H1, with China and the US leading by 9% and 6% respectively whereas production has dropped 3% in the EU. Demand is weak, particularly in construction and automotive. This is bound to keep pressure on steel prices over the forecast period. Steel mills are supported by a range of government

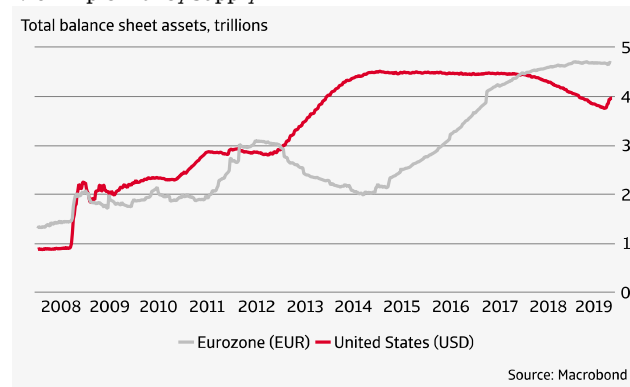
¹² Prices are denominated in US dollars. Therefore, the local currency price of alumina is relatively high as well.

policies, which help alleviate continued pressure on margins. The way out for the steel sector is one long-advocated: capacity reduction. Currently, the overcapacity in the steel market, as estimated by the OECD, is 24%. This is very high, but at least an improvement compared to 2015 when it stood at 32%. Further capacity reduction is to take place to a large extent in China, where 50% of global steel is produced. It is a slow process, signalling that further price weakness remains in store.

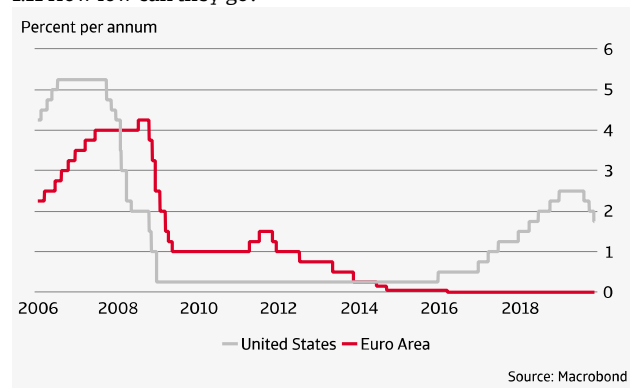
Monetary easing, again

The monetary policy U-turn by the main central banks, announced earlier in the year, has materialised. That followed pressure from a string of bad economic data in late 2018 and financial market turbulence. Both the Fed and the ECB essentially had announced that monetary easing was to resume, if economic circumstances weakened.

1.10 Ample money supply



1.11 How low can they go?



In late July, the evidence was sufficient for the Fed to make its move. It reduced the official rate for the first time in a decade, by 0.25 percentage point. This was followed by 0.25 percentage point cuts in September and October. Moreover, the run-off of securities from the balance sheet to the tune of USD 50 billion per month was terminated in August. It had reduced the Fed balance sheet from USD 5 trillion to USD 3.9 trillion and was starting to be felt in the money market. For the latter reason, some technical adjustments in the money supply will be needed to accommodate funding needs in the

money market¹³. However, the Fed made clear that the accompanying balance sheet increase should not be confused with resumption of quantitative easing.

In mid-September, it was the ECB's turn. It announced the lowering of the deposit rate that would apply to banks holding cash at the ECB by 0.1 percentage point, dragging it to -0.5%, whereas the lending rates were left at (close to) zero. Moreover, the bank announced resumption of the asset security purchase program for a value of EUR 20 billion per month as per November 1. Meanwhile reinvestments of repayments on the existing portfolio, which have kept the ECB balance sheet unchanged during 2019, continue. The ECB balance sheet, therefore, is expected to expand, albeit relatively modestly. Previous programmes ran at the pace of EUR 60 billion per month. The real meat of monetary easing is in the program to fund banks, the so-called LTRO III. Its funding rate is changed from 0.1 to minus 0.5. Indeed, banks will be paid to borrow from the ECB.

Monetary policy easing resounded across the rest of the globe. China cut the reserve requirements ratio for its banks by 0.5 percentage points for all financial institutions and by another 0.1 percentage points for smaller commercial banks. Central banks of Brazil, India, Korea and Mexico, among others, cut their policy rates. These cuts were noticeable but relatively muted: on average one tenth of the initial rate. Only a quarter of the central banks of emerging economies left policy rates unchanged.

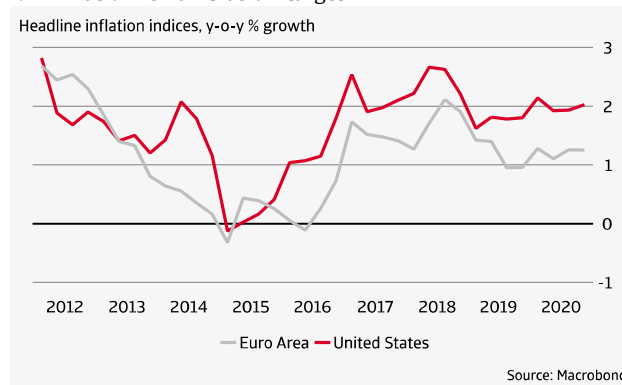
Close to being trapped

Monetary easing, which we now see happening again, should be interpreted with the mandates of the central banks in mind. The key variable in this context is inflation. Maintaining inflation near the target rate of 2% drives central banks actions.¹⁴ Since the financial crisis of 2009, central banks have struggled to keep these targets. In 2017 and 2018 it looked like matters would finally be changing as inflation edged up, but that was short-lived. Currently, we are facing inflation levels of 1.7% in the US and below 1% in the eurozone. No wonder the Fed and ECB are up in arms again to push up inflation. Also, given the difference in the inflation rate, it is logical that the ECB is taking a more aggressive stance compared to the Fed. Since the 2009 financial crisis, central have had only limited in lifting spurring price pressure. Inflation above 2% has been rare, even in the US.

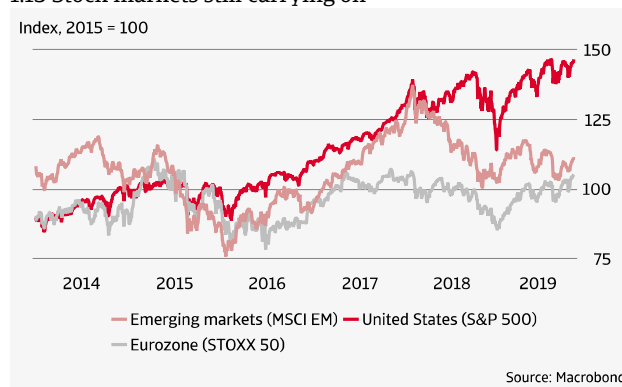
¹³ Mid-September the Fed offered USD 75 billion of additional funding to the market after the interbank rate briefly climbed to 10% following shortages due to reported cash demands by US firms.

¹⁴ The Fed has a dual mandate, with the other target being full employment. Neither of the targets are dominant. The ECB has a comparable target, of stimulating economic activity, but this is clearly secondary to inflation.

1.12 Inflation remains below target



1.13 Stock markets still carrying on



We are therefore in a situation where the effectiveness of current tools can be questioned. That is not so much because these tools are not effective as such, but rather because they have to be employed in the already-extraordinarily loose monetary situation we are in. There are primary tools: the interest rate regarding the price of money and quantitative easing regarding the supply of money.

Firstly, the effectiveness of further interest rate cuts at these low levels is limited as banks profit margins are squeezed, limiting additional lending. Indeed, prior to the financial crisis, a 1% rate cut was expected to provide a boost to GDP growth of 0.4 percentage points. This figure is now estimated to have shrunk to 0.14 percentage points¹⁵. It is unclear what this figure would be at lower interest rate levels than currently seen. In this context, policy rates, especially in the eurozone where banks are paid for borrowing, are close to a point where they cannot go much lower before the so-called reversal interest rate is hit. At that point, typically put at -1%¹⁶, households and firms are expected to start hoarding cash or saving additional amounts to achieve a certain level of purchasing power. In such a situation, the central bank loses its ability to steer the interest rate downward further anyway.

¹⁵ Oxford Economics, Policy rates alone won't lift the gloom, Research Briefing, August 1, 2019.

¹⁶ This relates to the costs of the alternative, money hoarding for which costs are involved as well, e.g. for a bank safe and insurance. See Oxford Economics, Negative rates – down, down, but not deeply down, Research Briefing, July 19, 2019.

Box 1 Puzzling low inflation

To understand persistently low inflation across developed markets, first look at wage growth. If economic activity picks up, additional workers need to be hired and ultimately wages increase as firms start to compete for workers. That compresses margins, triggering a rise in prices and subsequently inflation. The higher inflation in the US compared to the eurozone fits in this story. Wage growth is notably higher in the US, fluctuating around 3.5%, whereas eurozone wage growth is at 2%, even slightly lower than earlier in the year. Those figures are explained by unemployment rates that are historically low in the US at 3.7% and still high in the Eurozone at 7.5%. Accordingly, wage pressure is higher in the US. But the point is not so much the difference in inflation and wage growth between the US and the eurozone. Rather, that wage pressures are not translating into a rise in inflation in the US or in the eurozone¹⁷.

This perhaps perverse change in inflation may be temporary. It could easily vanish as wage pressures decrease with the weak environment. The level of inflation, however, remains a puzzle. We put forward various explanations of this phenomenon in previous Outlooks. These include chronically slow demand or secular stagnation, more competition from abroad that comes with globalisation, and technological development that increases businesses efficiency, reducing the need to raise prices. More recently, the discussion has turned to demographic factors, especially ageing¹⁸. In particular, a Bank for International Settlements (BIS) study argues that there is a downward bias in inflation because of ageing. Two channels are at work here.

Firstly, as societies age, the need for more savings (to accommodate retirement) pushes down the interest rate, potentially significantly below zero. Sub-zero rates are not in central banks' interest as it motivates cash hoarding by the public. Therefore they set interest at unnaturally high rates, motivating unnaturally high savings rates in return. In turn, investment as well as aggregate demand becomes unnaturally low, resulting in low inflation.

Secondly, ageing people tend to lend rather than borrow. Inflation would erode the value of the sums outstanding. Therefore, as the elderly become the dominate force in society it may show a bias towards low inflation. If this is the case, monetary policy would require a fundamental rethink. It more particularly suggests central banks' inflationary targets should be set higher, so that more aggressive policy tools can be employed.

Secondly, quantitative easing faces a problem as well. Asset prices, equity prices and bond prices, are pushed up by the ample money supply, and look stretched.¹⁹ We see this

¹⁷ In economist jargon, the so-called Phillips curve is broken. That curve depicts the relationship between unemployment and inflation: if unemployment goes down, inflation picks up and vice versa. We now see lower unemployment and no inflation change, or even a change in the wrong direction.

¹⁸ Juselius, M. and Takáts, E., The enduring link between demography and inflation, BIS working papers 722, May 2018

¹⁹ Quantitative easing helps equity prices through a mechanism called the velocity of money. This is the number of times that the money supply 'turns over' in the economy; alternatively formulated, it is nominal GDP divided by the money supply. If the velocity of

mirrored in very low yields on bonds for high-rated borrowers such as governments, which can borrow at negative rates, even for the longer term. This helps to keep financing costs of firms (very) low. High equity prices in turn affect the wealth of households, which stimulates consumption. We are not aware of any negative yield equivalent figure equal to the reversal rate of interest but it seems intuitive that a lower boundary exists. Therefore, the effectiveness of quantitative easing will be constrained as well.

The situation we are facing is that we have central banks, particularly those in advanced economies, missing their mandatory inflation targets, with hardly any effective tools at their disposal to change this. Monetary policy, at least in the eurozone and the US, seems to have lost its potency to stimulate GDP growth. To revive their toolboxes to be able to react in a downturn, tightening is badly needed. But that, as we have seen in late 2018, generates financial market turbulence and hampers already low GDP growth rates. Monetary policy is close to being trapped. What we therefore can expect central banks, especially the Fed and the ECB, to do is to carefully ease in order to absorb the remaining policy room to boost, or at least not hamper, the lacklustre GDP growth.

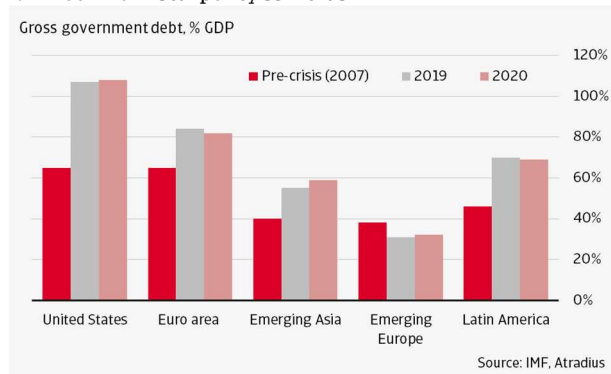
Waiting for governments

Weakened GDP growth and limited, if any, remaining potential for effective monetary policy in the eurozone and the US call for a significant fiscal policy boost. We have already made a case for this before, but given the worsened outlook it has become more pressing, justifying some further discussion. It seems there is more room for fiscal stimulus than we thought.

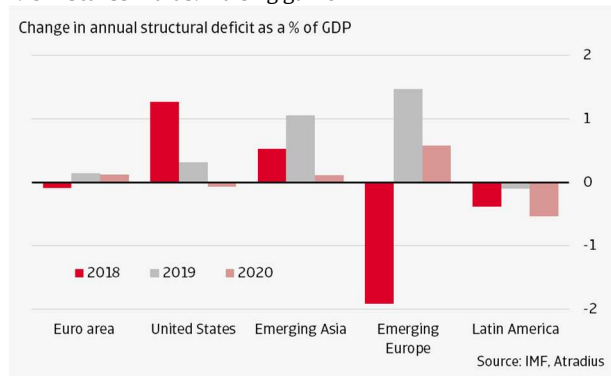
It comes perhaps as no surprise that the underlying fiscal position, more specifically the room for fiscal stimulus, of the various regions in the world has not changed much since our May Outlook. Considering the debt-to-GDP ratio, the overall picture is still that the room for fiscal stimulus seems limited. This ratio is above 100% for the US and slightly above 80% in the eurozone in 2019. The sustainability threshold for advanced economies is at 85% according to the IMF. Therefore, there is no room for stimulus in the US and only limited room for the eurozone. For the emerging economies, the IMF has set the threshold at 70% due to a buffer for generally more volatile funding conditions. From that perspective, Emerging Asia (55%) has quite some room, Emerging Europe (31%) even more, whereas Latin America is exactly at the threshold.

money falls by 1%, equity prices rise by approximately 9% in the US; for the eurozone this figure is 5%. See Oxford Economics, QE giveth to stock markets and QT taketh away, Research Briefing, May 30, 2019.

1.14 Room for fiscal policy stimulus



1.15 Fiscal stimulus: waiting game



Now, there are several arguments that press for a more nuanced look at these figures. First, the US may have a different threshold because of its unique position as issuer of the reserve currency and currency wherein trade and finance take place. Second, the figures are regional averages, with eurozone countries like Germany and the Netherlands having fiscal room, but not France (99%), Italy (131%) or Spain (97%). It suggests the regional figures understate the fiscal room. Third, the figures included debt held by the central banks because of the bond purchasing programmes. A case can be made to net these out. If we do that, Japanese debt falls from 237% to 152%, US debt from 107% to 95%, Italian debt from 131% to 110%. German debt is even below pre-crisis levels at slightly above 50% of GDP. Fourth, whereas debt has risen compared to pre-crisis, the ultralow interest rates have dragged interest costs of countries to record-low levels. They are now 1.8% of GDP, lower than in 2007 and half the figure of the mid-90s.²⁰ More importantly, it seems clear that the rates will remain low for some time to come as central banks, particularly the Fed and the ECB, have turned to monetary easing again. In brief, there is arguably more room for fiscal stimulus than we thought.

Whereas monetary policy is clearly suffering from diminishing returns, fiscal policy is more effective in the current circumstances. Fiscal policy directly affects demand, whereas monetary policy works indirectly. The so-called multiplier of fiscal spending (the effect of an additional euro of government spending on GDP) may be double to quadruple its normal size in a recession. This is due to the

²⁰ Details from Oxford Economics, The case for a fiscal response to downturn fears. Research Briefing, August 27, 2019.

absence of a crowding-out of private spending at very low interest rate levels. At current interest rate levels there is a shortage of investments (relative to savings), which the government simply accommodates, boosting demand and GDP. We are not in a recession, but also not in a normal economic situation, suggesting that the fiscal multiplier is more potent now. It underlines the call for, where possible, fiscal policy accommodation to push up global GDP growth. Such policy should focus on strengthening investments, the weak spot in the current global economy. There is room for investment in infrastructure in the US and Germany especially as well as globally in the energy transition. Government investments in these areas help build the production capacity and thus the potential for future growth.

The current picture of fiscal policy in the advanced economies does not support this need, at least not yet. In the US there has been a major stimulus from the 2017 Tax Cuts and Jobs Act. That had a clear effect on GDP growth in 2018 but is fading in 2019. In 2020 some fiscal contraction is expected.²¹ Moreover, the plan for a large infrastructure push agreed between the Trump administration and the House of Representatives has been shelved. Whereas the overall stance in the eurozone was mildly contractionary, it is moderately supportive in 2019, led by Germany and the Netherlands. France and Italy in turn support a mild boost in the eurozone in 2020. The emerging economies are using up more fiscal space. In Emerging Asia the fiscal stance is loosening in 2019. Indeed, fiscal stimulus is taking place in the largest countries in the region, China, India as well as Indonesia. This will fade in 2020. In China, fiscal policy can quickly be adapted to keep up with GDP growth targets. Fiscal loosening is also occurring in Emerging Europe both this year and next. Large emerging economies like Turkey and particularly Russia provide a significant fiscal boost to their economies. In Latin America, the fiscal stance is contractionary, especially in Argentina. In Mexico and Brazil, 2019 budgets show some stimulus, but this is expected to disappear in 2020. The overall picture shows that the calls for more fiscal policy stimulus should be directed at the advanced economies.

²¹ We measure fiscal stimulus as the change in the structural primary balance as a percentage of potential GDP; the primary balance is the government balance excluding interest payments. Structural means corrected for the business cycle. We note that the figures in the graph for the emerging regions do not fully reflect this measurement because of lack of data for the regional aggregates.

Table 1.2 Downside risks to the global economic outlook

	Risk	Symptoms	Effects	Probability	Impact
1	Trade war proliferation	Trade war between US and China extends to EU and car industry	Severe constraints on global trade	moderate/high	high
2	Policy uncertainty	Further rise due to trade war extension, no-deal Brexit, revamped Italian political uncertainty	Lower investments, further pressure on trade	moderate/high	high
3	China GDP growth	China growth decelerates beyond authorities' control	Pressure on commodity prices; spill-over to dependent economies	moderate	high
4	Fed policy	Fed policy change inadequate or unexpected	Turmoil in global financial market; flight to safety (USD)	moderate	high/moderate
5	Oil price	Supply-side shocks such as OPEC disagreement and low investments	Higher and more volatile investments, pressure on investment	moderate	moderate

Source: Atradius Economic Research

Risks to the outlook lean downwards

The picture of the global economy that we have sketched in this chapter is one of relatively low GDP growth. Consumption is the pillar of support as investment as a percentage of GDP hardly grows. Manufacturing is under pressure but services keep up. As a result, global trade has come to a halt. There is a high level of policy uncertainty especially following the escalation of the trade war last summer. The oil price is relatively low and commodity prices are under pressure. Monetary policy is increasingly impotent in the advanced economies while the potential of fiscal policy is arguably unused. There are several ongoing risk that could have significant ramifications to our outlook – particularly to the downside.

Trade war proliferation. The recent developments in the trade war between the US and China have raised fears for more escalation. There could be further steps such as outright prohibition for US firms to sell goods to a blacklist of 28 Chinese firms announced on October 6.²² In addition, the threat of US tariffs on global imports of cars and car parts based on security reasons is a major risk. The US administration will have to make a decision shortly. It would extend the trade war to a second front, involving the EU and Mexico, as well as Asian countries with a current account surplus with the US. There will certainly be retaliation from trade partners. If pushed through it will be the second major escalation of the trade war this year. We have seen what that means for trade and policy uncertainty.

Policy uncertainty. The trade war escalation that took place over the summer has clearly affected economic policy uncertainty. Economic policy uncertainty is also up due to other events. Since the arrival of Boris Johnson and his government's hard line on Brexit this summer, fears for a no-deal Brexit or at least a hard Brexit mounted. While these fears have reduced since the latest extension, the risk of such an event at the next deadline, 31 January 2020, is not off the table. Another lingering issue is Italian populism. It is lower now given the surprise formation of a centre-left rather than populist government. However, fears for a return of populist

sentiment, and thus the fear of a eurozone exit, remain. The higher the uncertainty index climbs, the higher the likelihood of a further impact on economic behaviour of firms and households.

China GDP growth. The trade war hits China at a bad moment. The country is transitioning to a more consumption-led economy (as opposed to investment) and GDP growth will naturally slow as the country reaches higher GDP levels. Moreover, it is grappling with high debt levels in state-owned enterprises and local governments. Managing the impact of the trade war provides an additional dimension to economic policymakers. That is why the risk of a deceleration of GDP beyond control of the authorities has risen. So far the authorities have dealt with the trade shock fairly well, using monetary and fiscal policy means and allowing the currency to modestly depreciate. Still, if matters go wrong, it will directly affect the global economy because of the sheer size of China's economy. Moreover, there will be indirect effects on neighbouring countries and commodity prices.

Fed policy. In several Outlooks we have assessed the communication strategy of the Fed being a risk. So far, the Fed chair has proven a safe pair of hands – even able to ignore regular attacks on the Fed from the White House²³ – but there is still the risk that such policy communication errors can be made. Most of the potential for a Fed error comes from monetary policy itself. In December 2018, we saw global financial turbulence because the Fed had arguably tightened monetary policy too much. It highlights that the Fed, with its strong global footprint, is walking a tightrope with its decisions.

Oil price. Currently oil stocks are rather high, or at least higher than expected, providing a buffer against volatility, as evidenced by its quick recovery following the attack on Saudi production facilities last summer. Still, the attack highlighted the concerns that exist related to geopolitical risks in the Middle East where Iran is US sanction stricken. Iranian archenemy, Saudi Arabia, is still considered the global swing producer in the oil market. Escalation of geopolitical tensions in the region could lead to an oil spike that lasts, curtailing global GDP growth.

²² Notably the argument used by the US administration is human rights abuse. See <https://www.ft.com/content/2a40927e-e946-11e9-a240-3b065ef5fc55>.

²³ President Trump even labelled Fed Chair Powell 'the enemy' in late August. See <https://www.nytimes.com/2019/08/23/business/powell-fed-interest-rates-trump.html>.

2. Advanced economies: prospects and risks

Resilient consumers in the face of global headwinds

It is clear that developed markets are facing a pronounced slowdown in 2019 and 2020, but domestic demand is expected to allow most countries to avoid a recession. While all major markets are facing a manufacturing downturn – most prominently in Germany with spill-overs across the continent – the outlook for domestic demand remains steady. Unemployment is at historic lows in the US, UK and Japan and continues to decline in the eurozone. Amid persistently low inflation, disposable incomes are rising across advanced economies. This is driving private consumption and a relatively benign spending outlook.

Table 2.1 Real GDP growth (%) - advanced markets

	2018	2019f	2020f
Eurozone	1.9	1.1	1.1
United States	2.9	2.2	1.6
United Kingdom	1.4	1.3	1.1
Japan	0.8	0.8	0.2
Advanced economies	2.3	1.6	1.3

Sources: Oxford Economics, Atradius

Risks to this outlook however lean heavily to the downside. The most significant risk is that industrial weakness or political uncertainty reverse consumer optimism and put the brakes on spending. In Japan, a VAT hike is expected to nearly eliminate growth in 2020 but higher government spending should help avoid contraction. Across all countries, the primary risk is that persistent uncertainty reduces business investment and hiring to the extent that consumer confidence is affected.

German weakness spreads throughout the eurozone

The eurozone economy is slowing down more than anticipated. GDP is expected to expand by 1.1% both this year and in 2020. This slowdown reflects the prevailing weakness of international trade and global uncertainties, which are weighing on the manufacturing sector, particularly in Germany. While Germany faces the biggest slowdown in 2019 (GDP growth was revised down by 0.5 percentage points since our previous Outlook), other countries are not immune to the weak external demand (Spain: -0.3, France: -0.1, Belgium: -0.1). While a recession is not in the cards yet, sentiment indicators show that growth will remain subdued

at best. As the eurozone's largest economy, Germany is still struggling with the revised emission standards for diesel-powered vehicles, which has been taking a toll on the car industry. Adding to the weakness is the global slowdown in trade, to which Germany is relatively prone.

Table 2.2 Real GDP growth (%) - eurozone

	2018	2019f	2020f
Austria	2.3	1.6	1.2
Belgium	1.4	1.2	1.1
France	1.7	1.3	1.3
Germany	1.5	0.6	0.7
Greece	1.9	1.7	2.0
Ireland	8.3	4.5	2.7
Italy	0.7	0.1	0.2
Netherlands	2.5	1.6	1.2
Portugal	2.4	2.0	1.4
Spain	2.4	2.0	1.7
Eurozone	1.9	1.1	1.1

Sources: Oxford Economics, Atradius

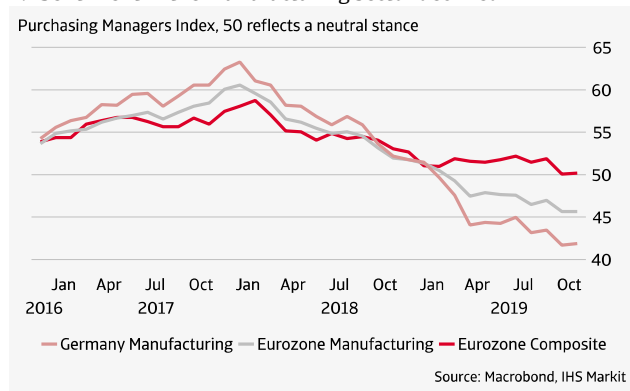
Political uncertainty is weighing on the Italian economy. Growth is coming to a near standstill, as private consumption softens. The new government is aiming for a 2.2% budget deficit in 2020, which may very well lead to renewed tensions with the European Commission, as the government had committed to a stronger austerity policy. The government will not increase the VAT and will implement a minor cut in the labour tax wedge. The silver lining is that the cabinet is not willingly pushing the economy into a recession, but this can only work if markets continue to believe in Italy's fiscal solvency.

France continues to deliver relatively positive news amid the increasingly gloomy European background. Private consumption remains the most important growth pillar and household purchasing power continues to benefit from fiscal support, contained inflation and rising wages. However, there are signs that rising external uncertainty is beginning to affect the domestic economy. Economic weakness in Germany and Italy is a key concern as they account for 20% of French exports.

Spain's economic recovery over the past year has been strong. Although growth is expected to slow in 2019 and 2020, it should remain above the eurozone average. A rise in wages combined with lower inflation is supporting real incomes. However, the uncertain outlook has prompted households to start increasing their precautionary savings, so the income gains are not fully translating into higher spending.

The Purchasing Managers Index (PMI) of the German manufacturing industry declined significantly over the year, reaching 41.9 in October 2019, which is well into recession territory and its worst performance since the depths of the global financial crisis. The eurozone as a whole is performing better, but also here we see a decline in the manufacturing PMI. Thus far the spill-over from weakness in manufacturing to services has been limited, as can be seen from the composite PMI (including manufacturing and services), but this could change. A recession in the eurozone is not expected this year or next year in the base case scenario. However, risks are tilted to the downside both externally (trade policy uncertainty, Brexit) and internally (political uncertainty in Italy). An escalation of any of these risks could result in substantially lower growth, and even a recession.

2.1 Sentiment in the manufacturing sector declined



Trade war is weighing on growth

Eurozone exports continue to suffer from a worsening trade environment, with fears of a full-blown trade war affecting sentiment and orders. The global automotive industry slowdown exacerbated the impact in many countries, especially Germany. Although part of the weakness in the car industry will gradually fade as the sector adapts to the revised emission standards, the outlook remains challenging. Eurozone exports are expected to slow to 2.1% in 2019 from 3.5% in 2018.

In 2019, the contribution of net trade to growth is expected to be zero. Several risks continue to threaten the outlook. One of these risks is a further escalation of the trade war, which is still largely confined to the United States and China, but may spill over to Europe. Furthermore, the possibility of a no-deal Brexit and a sharper slowdown of China's growth could worsen the eurozone outlook.

Domestic demand remains resilient

Given the weak external environment, growth in the eurozone this year will be driven entirely by domestic demand, which has so far proven to be resilient. Increasing labour income and low inflation are supporting consumer spending. The inflation forecast for both 2019 and 2020 is 1.2% y-o-y.

Box 2 US-EU trade tensions simmering

The US administration has announced tariffs on USD 7.5 billion worth of imports from the EU after a WTO ruling on government support to aircraft manufacturer Airbus. The US accuse Europe of giving EUR 22 billion of unlawful state aid to Airbus. EU goods that will be affected by the import tariffs are new airplanes, certain agricultural products (such as wine, cheese, pork, Irish and Scottish whiskeys) and a number of industrial goods. The EU has followed up with a challenge of its own, alleging that more than USD 23 billion in illegal aid has been channelled to Boeing. But it will take several months before a WTO ruling on this matter can be expected. A risk is that the trade war will escalate further, since the US is deadlocked with the EU on trade talks and has threatened to impose tariffs on auto exports. While a decision was expected November 14, a six-month delay is expected.

The labour market is showing no signs of weakening. Employment grew by 900,000 in H1 of 2019, the same rate as in H2 of last year. Tighter labour markets are also finally driving a pick-up in wages, which are rising at their strongest pace in a decade. Combined with low inflation, this is providing a boost to real incomes. The pass-through of higher wages to inflation is taking longer than anticipated. The IMF has attributed the relatively low wage pressure despite considerable reductions in labour market slack to persistently low inflation expectations in the eurozone (see also discussion Chapter 1 for alternative explanations).²⁴

Backlash against ECB policy

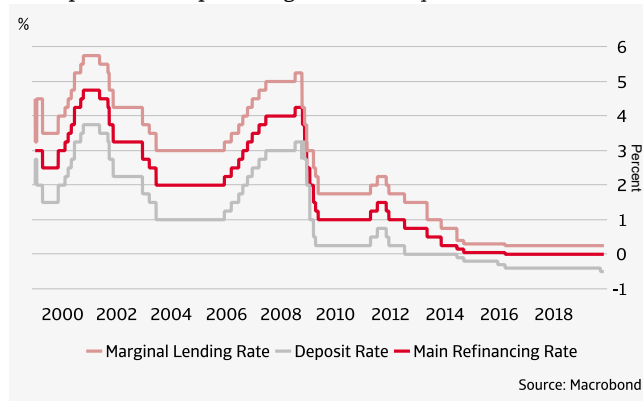
Headline inflation decreased in recent months and core inflation (excluding energy and food prices) is showing no signs of strengthening (it remains relatively stable around 1%). This, together with weak growth data, is a challenge for the ECB. After tightening its monetary stance last year, it reversed course after its policy meeting in September by announcing a new stimulus package in a renewed attempt to revive inflation. The easing package consists of a further cut of the deposit rate from -0.4% to -0.5%, providing cheap loans to banks and a restart of the asset-purchasing programme. There was fierce opposition from several central bank governors, including Klaas Knot from the Dutch Central Bank and Jens Weidmann from the Bundesbank, who think that the measures are disproportionate and will do little to increase inflation.

What members of the monetary policy committee did agree on, however, is that fiscal policy needs to act promptly to address the economic weakness. It would help to absorb the still-ample degree of slack in the economy, which is visible in still-elevated unemployment in some countries – especially when looking at broader unemployment that includes workers who want to work more hours or those that are available but not currently seeking employment (discouraged workers). The fiscal space to step up

²⁴ Y. Abdih, Lin, L. and Paret, A.C. (2018), Understanding Euro Area Inflation Dynamics: Why So Low for So Long?, IMF Working Paper No. 18/188

government spending is available particularly in Northern European countries such as the Netherlands and Germany. The Dutch government is developing plans for an investment fund of up to EUR 50 billion to enhance long-term growth. However, the investment fund is a long-term project. In the short term, the Northern European governments only provide a mild stimulus. Their ability to spend more in the short run is also limited because their economies are already close to full employment. Southern European countries have limited fiscal space to spend more as they are constrained by high levels of government debt.

2.2 Deposit rate deeper in negative territory



Soft landing expected for US

The current recovery is the longest in US history and as the economy slows, fears of an imminent downturn rise. We expect the US economic momentum to wane from now through 2020 but we do not foresee a recession. Political uncertainty and external forces could drag growth into recession territory, but solid domestic fundamentals should keep the economy muddling through the forecast period.

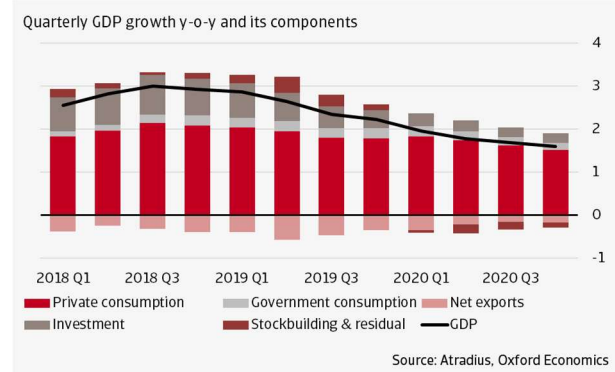
Consumer strength to help US avoid recession

On the eve of an election year marked by policy uncertainty, one thing is certain: the US economy is losing steam. Annual economic growth surged to 2.9% last year, surpassing 2015's growth rate to be the strongest annual expansion of this recovery cycle. Fiscal stimulus poured gas on the flames, boosting stable growth rates above potential with higher government spending and tax cuts to stimulate investment. After firing on (nearly) all cylinders, the US outlook is increasingly resting on consumers' shoulders.

Most pillars of growth are losing steam or dragging on growth. As some higher government spending still supported the economy in H1, the fiscal stance is shifting to neutral in H2 and even slightly contractionary in 2020. Any prospect for further stimulatory spending in 2020 is limited by other political priorities amid the impeachment inquiry and challenges to cross-party policymaking in the run-up to the 2020 elections. Investment is also forecast to contribute significantly less to GDP growth going forward. On top of

fading fiscal stimulus, the industrial downturn and trade-related uncertainty are weighing on investment growth. Corporate profits are being squeezed by rising import prices due to higher tariffs on Chinese imports, higher labour costs, and lower demand for US exports. The US has a structural current account deficit and net exports typically subtract from growth. With lower demand in key export markets including China and the eurozone and the competitive disadvantage of a strong US dollar, net exports will continue to drag on growth over the coming year. Business investment contracted 1.0% in Q2, its first contraction in three years. This is resulting in a sharp slowdown of business investment growth to 2.4% this year from 6.4% last year. Its annual growth rate is expected to slow further to 0.7% in 2020.

2.3 US GDP growth increasingly reliant on private consumption



The slowdown across investment, government consumption, and exports increase the dependence of the ongoing recovery on consumers. Private consumption accounts for more than two-thirds of US economic activity and has fuelled the recovery to this point. Growth in consumption has steadily increased over the past years, averaging 1.9% growth y-o-y since 2016. In fact, consumer spending growth reached a four-and-a-half year high in Q2 of 2019. The very tight labour market, low inflation, and low interest rates have supported robust consumer spending.

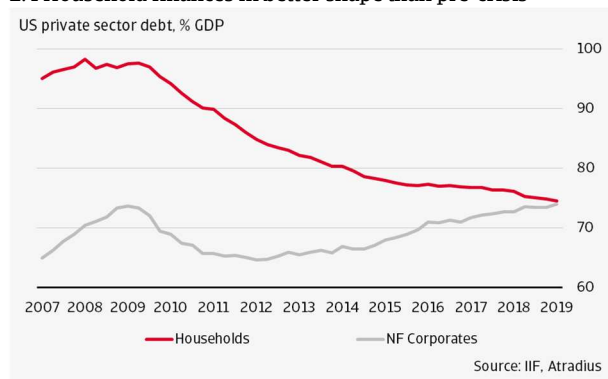
The outlook for private consumption is less buoyant than it has been over the past couple years, but we expect the slowdown to be only gradual. Unemployment stands at a 50-year low but job creation is beginning to slow. Wage growth remains relatively firm (2.9%) but not as high as could be expected in such a tight labour market, suggesting there is still room for non-job-seeking Americans to enter the workforce. With business investment slowing and uncertainty persisting, the prospects for more substantial income growth are limited.

Despite these slowing gains amid rising uncertainty, consumer confidence has proven relatively resilient. Consumer sentiment in October surpassed expectations and was in line with the average observed thus far this year. It stands firmly in positive territory with consumers reporting that job and income growth are most important, largely ignoring other news related to the trade war and impeachment. Consumers recognise some slowing of job growth but generally see good times ahead for at least the coming year. Slowing investment and hiring is likely to weigh increasingly on this optimism in 2020 though.

Wage growth is also failing to flame price pressures, which at 1.8% in August, still stands below target. With only modest inflation and record-low inflation expectations, the Federal Reserve is loosening monetary policy more aggressively. After three 25 percentage point cuts this year, the interest rate is now in a range of 1.5%-1.75%. These rate cuts are largely perceived as an 'insurance policy' for the US economy against the global slowdown and should help protect private consumption, keeping the late-cycle slowdown orderly.

A 1.6% expansion is predicted for 2020 but this slowdown is highly vulnerable to any downside risks. In the absence of other pillars of growth, any shock that causes consumers to tighten their purse strings could send the US into a recession. One spark could be a stock market crash, triggered by Sino-US competition to dominate the high tech industry. Another one also related to trade would be an expansion of trade tensions with Mexico, which would more significantly strain US manufacturers. An oil price spike would also deal a direct blow to US consumers as energy and fuel prices increase.

2.4 Household finances in better shape than pre-crisis



With so much weight now riding on the weakening but benign private consumption outlook, it is also important to note that household finances are in much better shape than in the lead-up to the Great Recession.²⁵ US households have been deleveraging since the financial crisis bringing household debt as a percentage of GDP to 75% from nearly 100% dueing the crisis. Personal savings rates have also increased substantially from only 3% in the mid-2000s to about 8% today. With better household finances, the US economy is better-insulated from these downside risks, offering support for our baseline outlook that private consumption will continue to support steady, but slowing, economic growth in the US.

UK weakness is widening

The UK is muddling through ongoing uncertainty surrounding its departure from the EU and softening global demand. The economy has been relatively resilient but growth rates are meagre and set to slow further to 1.3% in 2019 from 1.4% in 2018. The prolongation of uncertainty associated with yet another Brexit extension, compounded by a bleak external outlook, take the potential recovery in 2020 expected in the last Economic Outlook all but off the cards. Instead, the economy is forecast to slow further to 1.1% under the assumption of an orderly Brexit in early 2020.

Brexit uncertainty remains a roadblock to recovery

GDP growth has been volatile through 2019 amid economic uncertainty. In Q1, the economy boomed with 0.6% q-o-q growth as firms stockpiled ahead of the expected Brexit deadline of 31 March. This was followed by a 0.2% q-o-q contraction in Q2 as companies drew their stocks back down. Another expansion of at least 0.3% q-o-q is estimated in Q3 with a boost from precautionary stock building ahead of the 31 October deadline, suggesting another contraction is likely in Q4.

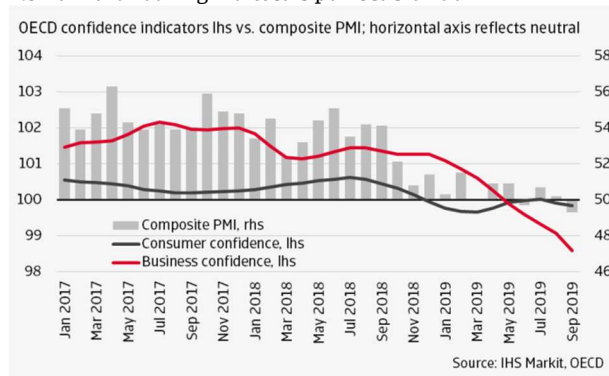
Despite all this noise in headline GDP figures, there are clear signs of an increasingly broad-based slowdown in the UK. In line with other developed as well as emerging markets, the UK has not been able to escape the industrial downturn. The manufacturing sector is in recession now with Q3 marking the second consecutive quarter of contraction. The export environment continues to deteriorate amid slower global trade growth. Moreover, sterling has recovered recently in line with the declining risk of a no-deal Brexit, reducing the competitiveness of UK exports.

Heightened political and economic uncertainty continues to weigh on the business environment. Business investment is forecast to contract again this year by 1.2% (1.6% fall last year) and further by 0.3% in 2020. Even in an orderly Brexit, business investment will remain subdued before clarity comes on the future trading relationship. Ongoing uncertainty is also weighing on hiring activity as labour market tightening loses some steam.

The manufacturing recession and uncertainty are reflected in forward-looking indicators. The drop in composite PMI since late 2018 as the first Brexit deadline came into sight has been sustained and has fallen into contractionary territory in September. While the manufacturing PMI has been below 50 since May, the much more important services sector (80% of UK economy) has also crossed into the red. This is in line with the stagnation recorded in the services industry in Q3.

²⁵ 'Private debt in the US and China could amplify costs of the trade war', Atradius Economic Research, July 2019

2.5 Forward-looking indicators point to slowdown



Policymakers are taking action to prevent uncertainty and the manufacturing downturn from pushing the economy into recession in 2020. The fiscal stance is shifting from contractionary to supportive for growth and the MPC has shifted to a more dovish stance, pushing back chances of a rate hike to at least Q4 2020 and willingness to cut in case of a no-deal Brexit.

Policy support will help maintain resilient consumer spending. Unemployment is at historical lows below 4% and is feeding into more rapidly rising wage growth of 3.8%. The consumption outlook remains benign. The stronger sterling has allowed for a cooling-off of inflation to 1.7%. With wages surpassing inflation, real incomes are growing, supporting consumer spending. With persistently low business confidence and slowing gains in the labour market though, consumer confidence has been flirting with a pessimistic outlook.

Prospects for much stronger performance are limited and could prove much worse-than-expected in case of disorderly developments in Brexit negotiations. By securing another extension to 31 January, the downside scenario of departing the EU without a deal has been avoided in 2019. General elections are now coming up on 12 December. The result is highly uncertain given the polarised political climate, but our baseline scenario is that the elections reduce the political gridlock and allow for the passage of the withdrawal agreement bill in early 2020. However, the political outlook is volatile and faces significant risks that could have large ramifications for the Brexit process.

Japan: turning tides

Japan's economy is relatively stagnant in terms of expansion but is in its longest expansionary cycle since World War II. The country posted strong growth in H1, driven by robust private and public consumption, outweighing ongoing weakness in the external sector. As other advanced economies, private consumption is the key engine to economic growth and its importance has grown as exports have faltered amid the US-China trade war. But with an increase in the consumption tax rate – an important policy to improve the sustainability of public finances – the outlook is cloudy for Japan.

The global trade and manufacturing slowdown is weighing on export growth. Japanese exports have contracted 5% thus far in 2019 compared to the same period in 2018. While Japan has generally taken a leading role in global trade liberalisation, with the CPTPP coming into force in December 2018, a trade deal with the EU becoming effective in February 2019, and agreeing a new trade deal with the US in October 2019. However, the country faces rising trade tensions with its neighbour, Korea. Trade issues between the two Asian economies stem from deep-rooted historical tensions. Japan and Korea's bilateral trade conflict has had limited effect at this point but due to both countries' roles in the high-tech value chain it could exacerbate problems in the global technology sector. Global trade policy uncertainty is an ongoing problem for Japan, especially due to the yen's safe-haven status. Amid slowdowns in China and other regional economies, the yen has continued strengthening, weighing on the competitiveness of Japanese exports abroad.

On top of dim prospects in the external sector, Japanese households are now facing higher taxes, which should reverse the trend of the higher-than-expected growth rate observed in H1. The increase in the consumption tax rate from 8% to 10% in October is likely to push up prices and lower consumer spending. On top of disappointing wage growth, consumer confidence has plummeted to multi-year lows.

Altogether, this is expected to nearly put a brake on GDP growth in 2020, bringing it down to 0.2% from 0.8%. Supportive policies should help avoid a contraction. Higher government spending will help cushion the blow to consumers. While monetary stimulus has had limited stimulatory effects, the Bank of Japan has also hinted at cutting already-negative interest rates further to help insulate the domestic economy.

3. Emerging economies: prospects and risks

Domestic issues aggravate external headwinds

With growth across developed markets slowing and the global trade environment weakening, growth rates in EMEs are falling as well. However, most of the growth slowdown across EMEs is due to country-specific developments, especially in some of the larger economies in Latin America and Eastern Europe. While private domestic demand (consumption and investment) is still the main growth driver in many EMEs, it is not the same support as it is in advanced markets. On the bright side, more accommodative global financial conditions have reduced financial stress in many EMEs and allowed for looser monetary policies at home.

With the exception of Emerging Asia, growth is expected to pick up modestly as the impact of country-specific factors fades. But the headwinds to EME growth are daunting and pose significant risks to the outlook. As mentioned, the US-China trade war and weak external backdrop are weighing on export growth. On top of that, soft commodity prices are decreasing export and government revenues in natural resource-dependent countries. Furthermore, growing political and social tensions are clouding the outlook in an increasing number of countries.

Table 3.1 Real GDP growth (%) - emerging markets

	2018	2019f	2020f
Emerging Asia	6.0	5.3	5.2
Latin America	1.3	0.5	1.4
Eastern Europe	3.3	2.2	2.6
MENA	2.0	0.8	2.6
Sub-Saharan Africa	2.5	2.6	3.2
Emerging Markets	4.7	4.0	4.3

Sources: Oxford Economics, Atradius

Emerging Asia: shifting trade flows

More and more, the trade war is leaving its mark on economic developments in Asia. Trade flows are under pressure, which causes damage to the countries with close links to China and the US. Still, next to the negative consequences, the trade war sometimes also has some positive effects. Not only is trade slowing; it is also shifting. There are clear signs of Chinese goods being replaced in the US by other suppliers, especially from Asia, and of US goods in China being displaced too. Depending on their place in the

international supply chains and the complexity of their export products, we identify countries that are mainly losing from the trade war, but also some that are benefitting.

Table 3.2 Real GDP growth (%) - Emerging Asia

	2018	2019f	2020f
China	6.6	6.1	5.7
India	7.4	5.6	6.8
Indonesia	5.2	5.0	4.9
Malaysia	4.7	4.4	4.0
Philippines	6.2	5.6	5.8
Thailand	4.1	2.9	2.9
Vietnam	7.1	7.0	6.6
Emerging Asia	6.0	5.3	5.2

Sources: Oxford Economics, Atradius

China: feeling the impact of the trade war

More than any other country, China fell victim to US trade policy. Encouraging may be the so-called 'phase one' trade deal in October, which has put additional US tariffs on the shelf. Significant de-escalation or a comprehensive trade deal is probably not in sight though due to ideological differences deeper than trade, as discussed in chapter 1.

China's transition from export- and investment-led growth to a more consumption-driven economy and global weakness in the electronics sector play a role as well, but the impact of the trade war can easily be seen in the macroeconomic indicators. Real GDP growth slowed to a disappointing 6.0% y-o-y in Q3, the weakest pace in 27 years, as demand at home and abroad faltered. Domestic demand was weak, with both consumption and investment contributing much less to GDP growth than in 2018. Retail sales and industrial production were very weak this summer. Looking forward, purchasing managers' index (PMI) figures point to a further loss of growth momentum, especially in the manufacturing sector. For the full year 2019, real GDP growth will probably amount to 6.1%, before slowing to 5.7% in 2020. This compares to a 6.6% growth rate last year and forecasts of 6.3% and 6.0% respectively for 2019 and 2020 in our previous Outlook. The risks to the forecasts are primarily on the downside: limited policy options for

Box 3 China's innovation drive hindered by US measures

Another risk to China's growth outlook is a more restricted exchange of knowledge and innovation with the rest of the world. As the shift of low-cost production industries to other – mostly Asian – countries shows, China's growth model of being the world's factory is becoming obsolete. Whereas wages are rising, the economy has to climb up the value chain further by making its economy more innovative. To be successful in this, China has allocated enormous amounts of funds and resources to promote strategically important technologies such as IT, e-mobility and renewable energy. Internet companies like Xiaomi and Alibaba are illustrative of the growing importance of modern IT technologies and e-commerce in China's economy.

China's innovation drive, however, may experience headwinds now that the US restrictions are broadening to other fields than trade. Besides tightening rules on visas for Chinese students in high-tech fields such as aeronautical engineering and robotics, the US administration has blacklisted companies specialised in artificial intelligence, voice recognition and data because of concerns about their role in human rights violations in the autonomous region of Xinjiang. In the short-term, US efforts to delink China from global tech supply chains probably will not have much impact. However, if the so-called 'global technological split' – associated with a decoupling of the US and Chinese economies – is being continued, climbing up the value chain will be more difficult for China.

short-term incentives and – more of a threat for the long-term outlook – hurdles in climbing up the value chain.

3.1 China's PMI pointing to further slowdown



More stimulus, but gradual and moderate

Regarding limited policy options, the impact of fiscal and monetary easing on growth has so far been relatively slight. Reserve requirement cuts for banks by the People's Bank of China (PBoC) and government measures to advance local government bond issues for infrastructure spending have helped to avoid a stronger growth slowdown, but more policy easing is needed if the authorities want to stabilise growth. Because the government attaches great value to its aim to double its 2010 GDP and per capita income by 2020, we expect the PBoC will continue to loosen monetary conditions. Meanwhile, the government will probably come with additional measures to stimulate infrastructure investments.

Both kinds of macro policies, however, will be implemented gradually and directed at specific target groups because they are at odds with the government's efforts to deleverage and reduce risk in the economy. Financial imbalances are further building up, despite some successes with reining in credit growth. Non-financial corporate debt is still at 155% of GDP and the quality of loans to state-owned enterprises in heavy industry sectors is deteriorating. In case of a renewed pick-up in credit growth or a sustained economic slowdown, this could lead to more financial stress and raise the risk of market turmoil. Up till now, the authorities in this regard have been successful in finding the right balance, but that is no guarantee for the future.

India: faltering economy needs more stimulus

Like many other countries in the region, India is experiencing an economic growth slowdown. The weakness, however, is relatively deep and mainly related to faltering domestic demand, whereas most other countries are experiencing a mild, export-related decline in growth. More positively, India's growth rate remains high and should rise next year.

Real GDP growth fell to 5.0% y-o-y in Q2, the slowest rate in more than six years, after an already relatively weak 5.8% in the previous quarter. Plummeting car sales caused by new safety and emissions standards for vehicles, higher taxes on car sales, and tougher lending conditions from non-bank financial companies was the main contributor to the slowdown. In contrast with weak private consumption growth, government consumption remained strong. Fixed investment growth picked up steam after a weak Q1. The external sector contributed a bit positively to overall GDP growth, as export growth outpaced import growth.

Despite the current weakness, we expect GDP growth to rise to 6.8% next year from 5.6% in 2019. The main reason for this is that the government stepped up efforts to revive growth by an income tax cut for domestic companies and additional incentives for manufacturers. An income support scheme for farmers will contribute to private consumption. Room for further fiscal easing however is small, because the government's revenue collection is still weak. The central bank will come with further rate cuts, made possible by inflation at just 3.2% in August.

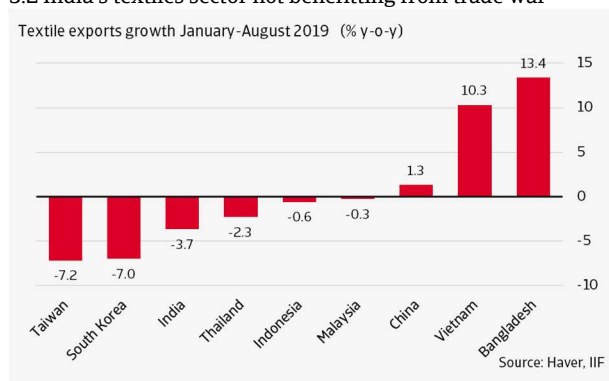
No benefits from trade tensions

The main downward risk for this benign scenario is global trade developments, or more specifically US trade policy. India is not very sensitive to the worsening global trade environment, but could be the victim of new measures by the US trade hawks, on top of the tariffs imposed earlier on aluminium and steel, and the withdrawal of special trade privileges for India. Recently, the US again showed willingness to put tariffs on other countries than China.

Meanwhile, potential positive effects for the Indian economy by attracting business activities from China seem to be limited, despite low costs and abundant labour supply. Looking to the degree of specialisation of Asian economies

across various industries, Bangladesh, Vietnam, Thailand and India are the best-positioned to compete with China in the low-end textile industry. The shift of low-cost production industries from China to other countries slowed growth of China's textile exports to just 1.3% y-o-y in the first eight months of 2019. Whereas textile exports of Bangladesh and Vietnam rose 10%-13%, India and Thailand had declines of 3.7% and 2.3% respectively. A likely explanation for these differences is that – besides being competitive in specific sectors – countries need an attractive investment climate to take over production from China. The Indian government took several steps to make doing business domestically easier, like the introduction of the national sales tax, that helped goods move seamlessly across state borders. However, there has been no such progress with international trade.

3.2 India's textiles sector not benefitting from trade war



Southeast Asia: troubled supply chains, but not everywhere

The escalating trade war paints a different and more heterogeneous picture for the emerging economies of Southeast Asia. Like for India, some of the countries face the risk of being a next target for US import tariffs. More serious, however, are the ripple effects of the trade war, which are weakening external demand, denting business sentiment and – in some cases – troubling supply chains.

In **Indonesia**, exports have been contracting for ten consecutive months, and domestic demand is losing momentum as continued import controls from last year weigh on investment. The growth slowdown however is relatively mild, due to accommodative monetary policy. Steady private consumption will keep real GDP growth at 5.0% this year and 4.9% next year, not much lower than last year's 5.2%. Unlike most other countries in the region, Indonesia is not able to attract activities from China, nor does it feel the extra impact of supply chains hit by import tariffs.

Thailand's economy sees GDP growth falling this year to 2.9%, the slowest pace since 2014 and much lower than the 4.1% growth rate of last year. Besides the US-China trade tensions, recent baht strength and sluggish global trade are keeping a lid on exports, which are expected to fall 3.5% this year. Growth in fixed investment and private consumption are both slowing, though the latter is remaining at a reasonable level. A recently announced fiscal stimulus

package and further interest rate cuts will stem the growth slowdown, but at 3.0% in 2020 real GDP growth will stay below potential. For Thailand, the downside risks to the growth outlook are a bit more than for other countries in the region. Next to the negative impact of the trade war on goods exports, China's growth slowdown could spill over into Thailand's tourism sector, weighing on services growth. Additionally, increasing frictions between political parties and the military may dent private sector confidence and disrupt economic activity.

Malaysia is experiencing a moderate slowdown, with stagnating exports and softening domestic demand. Private consumption growth, the economy's key engine in 2018, is slowing because of softer labour market conditions and in reaction to the credit surge last year prior to a three-month tax holiday during the summer. Fixed investment is expected to contract 2.4% this year due to global uncertainties and lower corporate profits. Altogether GDP growth probably will slow to 4.4% this year and 4.0% in 2020. A further slowdown, however, can be avoided because, with inflationary pressures muted, the central bank has enough room to lower official interest rates.

This relatively positive outlook may improve in the coming years because Malaysia is relatively well-positioned to attract business activities from China, particularly in low-end manufacturing consumer goods like mobile phones and laptops and of ICT products like intermediate components. Several major electronics companies have existing operations in Malaysia, which makes it easier to expand investment and production. The stable business climate and the participation in numerous free-trade agreements is also helpful in this regard.

The **Philippines** will probably feel the disruptive impact of the trade war in its ICT sector. The Chinese market is important for shipments of ICT intermediate components. Meanwhile, owing to a weak regulatory and business environment, the Philippines is not able to benefit from a shift in ICT export supply chains. The negative impact of the trade war can be seen in a steep slowdown in growth of goods exports this year, but the fact that the growth rate stays positive shows the disruption is relatively mild. Together with robust private consumption (due to rising wages) and supportive government spending, real GDP should rise 5.6% this year, following last year's 6.2% increase. Next year, fixed investment growth is expected to rebound from a dip this year, which, together with some further monetary easing and additional government spending, should enable GDP growth to increase to 5.8% in 2020.

Vietnam is one of the rare countries showing no or hardly any sign of slowing growth. Real GDP is expected to grow 7.0% this year, just a bit lower than last year's 7.1%. As mentioned in the India section, Vietnam is benefitting from the trade diversification effect of the US-China trade war. Not only production in the textile sector, but also the manufacturing of consumer goods and other ICT products, are shifting from China to Vietnam. Like Malaysia, Vietnam is already part of several value chains, has a strong road, rail and port infrastructure and is participating in several free-trade agreements. Strong investment promotion and the

existence of special economic zones make Vietnam attractive for companies looking to start new production sites or to expand existing ones. Benefitting from this trend – and from expanding its productive capacity in general – export growth will remain high in the coming years. The growth rate however will slow gradually, because of weaker Chinese import demand and maybe also protectionist measures from the US. With continued strong manufacturing activity and rising household spending, real GDP growth, though slowing, will stay high next year at an expected rate of 6.6%. Detracting from the growth figure this year and next is the sluggish performance of the agricultural sector, which is related to the ongoing African swine fever epidemic in the first half of 2019.

Latin America: economy disappoints, again

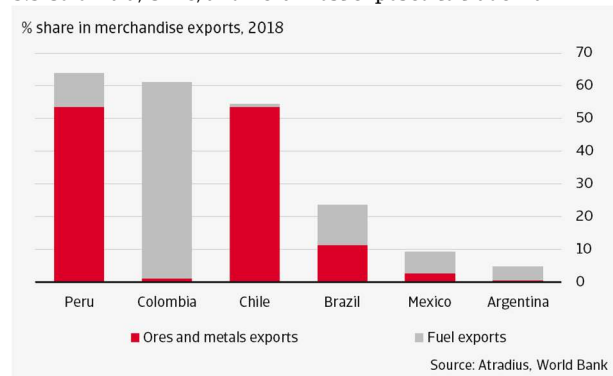
In Latin America, growth projections have once again been revised down, to 0.6% in 2019 and 1.4% in 2020 (excluding collapsing Venezuela). The main reasons for the disappointing economic performance are mainly country-specific developments but a slowdown in exports is also to blame. The region's commodity exporters – Chile, Colombia and Peru – are vulnerable to spill-overs from the US-China trade war through lower commodity prices, with the more open, China-dependent economies of Chile and Peru, being most impacted. Inflation remains generally contained, with the exception of Argentina and Venezuela. Going forward, economic growth will continue to be supported by looser monetary policy in the region's larger markets – Brazil, Chile, Mexico and Peru. But the region will continue to underperform with limited scope for fiscal stimulus, as heightened political risks weigh negatively on business confidence and investor sentiment. Dealing with the largest migration crisis in the region's history adds to the challenges: of the 4.5 million Venezuelans who have left the country, 3.7 million have settled in Latin America, by far most of them in Colombia.

Table 3.3 Real GDP growth (%) - Latin America

	2018	2019f	2020f
Argentina	-2.5	-3.0	-1.3
Brazil	1.1	0.8	1.7
Chile	4.0	2.5	2.6
Colombia	2.6	3.4	3.6
Mexico	2.0	0.3	1.1
Peru	4.0	2.7	3.5
Latin America	1.3	0.5	1.4

Sources: Oxford Economics, Atradius

3.3 Colombia, Chile, and Peru most exposed to trade war



Brazil: sluggish economy, key pension bill approved

Brazil's economic recovery suffered a major setback by softening household consumption, shrinking private investments, the continuing contraction in Argentina and the (transitory) drag from a mining disaster. Projections for real GDP growth were revised down to 0.8% in 2019 and 1.7% in 2020. The sluggish recovery will be driven by an increase in domestic demand as the external environment will remain challenging. Although Brazil's agricultural sector profits from shifting demand by China away from the US, this is not expected to be enough to compensate for the impact of slowing Chinese growth on Brazil's total exports (share of China over 25%). Business investment is expected to pick up steam following the approval of Brazil's long-awaited pension bill at the end of October and will be supported by additional monetary policy easing. Private consumption is expected to strengthen as the labour market gradually improves and inflation remains well within the 2.75%-5.75% target band.

The passage of the pension bill is a major achievement of the Bolsonaro administration, which took office at the start of this year. It shows that the administration, which is governing with a minority, is able to build majorities in the highly-fragmented Congress. The bill, which will enter into effect immediately, will in total save some USD 260 billion over ten years (14% of 2019 GDP). The reform is key to addressing Brazil's major economic weakness, its government finances. It is however not sufficient. The reform will stabilise government debt, which reached 80% of GDP last August (from 77% in 2018), but needs to be accompanied by additional measures to put it on a sustainable path. These include privatisation and measures to lift potential economic growth, such as tax reforms, trade liberalisation and infrastructure investments. These measures are currently being prepared, but will most likely meet more resistance in Congress. Uncertainty about the reform progress will keep Brazil's currency, which acts as a shock absorber, volatile.

Mexico: stagnant economy, rising uncertainties

Mexico's open economy narrowly escaped a technical recession in H1 of 2019 and the outlook has further weakened. GDP growth projections have been revised downward significantly to 0.3% in 2019 and 1.1% in 2020. Numerous factors were to blame, including fiscal austerity and a slowing US economy, but it particularly highlights the larger-than-expected damage to the economy caused by rising uncertainty. This stems from increased anti-business rhetoric of the new left-wing president, López Obrador, and uncertain trade relations with the US as US president Trump last June called off his threatened tariffs on all imports from Mexico. This has resulted in a slowing of private consumption, a weakening of business sentiment and a contraction of private investments and factory activity. The latter dropped in September at the fastest pace since the series began in April 2011. Contracting export orders were also to blame. This means that the external environment remains challenging, despite signs that Mexico might actually have benefitted from the US-China trade war. US demand for cars and machinery & equipment is shifting from China to Mexico, and so is production.

Going forward, economic growth will be supported by public investments and looser monetary policy. Declining inflation, at 3% in September firmly within the 2%-4% target range, enabled the central bank to cut its policy rate twice since last August. Also, the deal reached between the US and Mexico in which it was agreed to suspend import tariffs in exchange for Mexico strengthening its efforts to curtail migration, might help. However, growth will remain weak, also as growth-enhancing structural reforms will not be forthcoming under the current president, and vulnerability to shocks will remain high. As the flexible exchange rate acts as a shock absorber, this means that the peso will remain volatile.

Argentina: Contracting for longer, Peronists back in the saddle

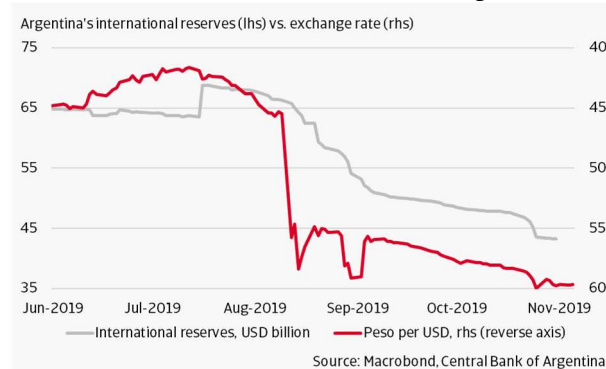
Argentina's economy remains in a precarious situation. A return to growth this year is no longer in the cards after the country experienced a new confidence crisis last summer. The peso contracted sharply (by some 25% vis-à-vis the USD) and official reserves fell by some 20%, prompting the imposition of partial currency controls. As a result, inflation will increase from its already high level of over 50% and private consumption will drop. The contraction in investments will accelerate and the recession will deepen and last longer (real GDP -3% in 2019 and -1.3% in 2020).

Confidence collapsed after the unexpectedly large defeat of President Macri in the August primary elections by his challenger centre-left Peronist Alberto Fernández and his running mate former president (2007-2015) Cristina Fernández de Kirchner (the two are not related). This reflected fears of particularly the local business community and investors of a repeat of the Peronists' interventionist, protectionist and business-unfriendly policies, with

successive sovereign defaults, should they win the presidential election. On October 27, Mr Fernández indeed won the elections with 48% of the vote. His four-year term will start 10 December 2019. However, Mr Macri's centre-right Juntos por el Cambio (JC) coalition remains an important counterbalancing force, as it will be the largest in the Chamber of Deputies. The new administration will have to cooperate with the JC in order to set their policy agenda.

So far, the president-elect has been rather vague about his economic policy agenda. He is generally seen as more pragmatic than Mrs Fernández de Kirchner. But he faces a herculean task to keep the different factions of the Peronists on board, and meet his election promises of no more austerity measures, while at the same time rebuild trust among businesses and investors. The room for disappointment among Argentine investors and voters is high. If the new president and his team do not regain investors' trust, a new sovereign default could follow, making it difficult to attract the financing needed to re-start the economy. However, breaking the election pledge of ending austerity could result in widespread social upheaval, which could make investors even more hesitant to invest in the country. The longer the period of uncertainty about policy direction, the higher the risk of outright default. In any case tackling Argentina's deeply-rooted economic problems will be hard and take many years. In the meantime, the Argentine economy will remain highly vulnerable to shifts in confidence.

3.4 Controls stave off free-fall but still weakening

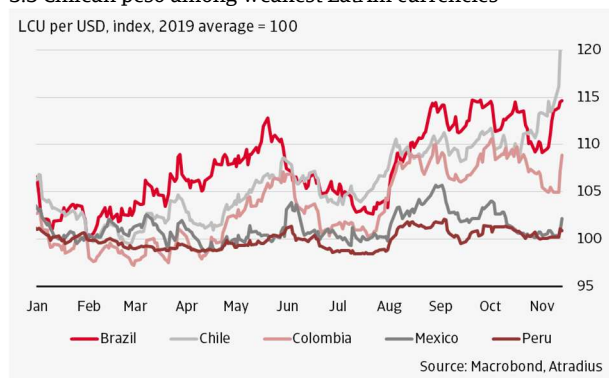


Other Pacific Alliance: heightened political risk hurts near-term growth outlook

Heightened political risk has also reached the three other Pacific Alliance countries – Chile, Colombia, and Peru. Chile's economic growth forecasts have been revised down to 2.5% in 2019 and 2.6% in 2020. This followed several months of disappointing growth as a sluggish labour market and declining business sentiment slowed domestic demand, while the trade war and weaker global growth hurt Chile's mining sector (copper accounts for 40% of export earnings and 10% of GDP). Going forward, growth will be supported by higher government spending and a further cut in interest rates by the central bank. However, risks are clearly to the downside, following the recent mass protests, the largest of

the past three decades. These were triggered by a rise in metro fares, but reflect rising public dissatisfaction on a range of issues, including the rising costs of living, growing inequality, pensions and job opportunities. The president has responded with a suspension of the rise in metro fares, a series of social measures and the withdrawal as host for two high-profile summits. But this was insufficient to stop the protests, posing serious political and economic challenges. Business and investor confidence could deteriorate further. The peso is the weakest currency this year among the region's larger economies, aside from those of Argentina and Venezuela.

3.5 Chilean peso among weakest LatAm currencies



In Peru, economic growth weakened significantly as well, as a recent political crisis has exacerbated the impact of US-China trade tensions on its external demand. Long-running tensions between the president and congress over anti-corruption reforms resulted in a dissolution of Congress in late September and advancement of congressional elections to January 2020 from 2021. Heightened political uncertainty and low commodity prices are weighing negatively on consumer and business sentiment and foreign investment. Real GDP is expected to fall to 2.7% in 2019 and to recover somewhat to 3.5% in 2020 as political uncertainty fades, accommodative monetary policy will support domestic demand and global external demand will strengthen.

Colombia is the region's bright spot. It is the only major Latin American country where growth is not softening. Forecasts have even been upgraded to 3.4% in 2019 and 3.6% in 2020. Strengthening domestic demand more than compensates for declining exports. Private consumption will remain the key driver of economic growth and is supported by higher employment, contained inflation and low borrowing costs. The latter also underpins private investments, which are further boosted by lower corporate tax rates. Government investments as part of the fourth generation infrastructure agenda remain growth positive as well. Colombia's main challenges going forward are maintaining social stability and dealing with the region's migration crisis: some 1.4 million Venezuelan nationals have migrated to Colombia and this number is expected to rise to 2.5 million in 2020. This weighs negatively on the security environment, the labour market and government finances.

Eastern Europe: cautiously brighter 2020 dependent on domestic demand

Eastern Europe is facing a pronounced slowdown in 2019 due to decelerating growth in Russia and stagnation in Turkey. Sanctions are severely straining economic activity in Russia. Accommodative policy has helped Turkey avoid a deeper recession, but only 0.1% growth is forecast for the full year. The EU economies of Central & Eastern Europe (CEE) are generally showing resilience this year as domestic demand continues to insulate them from the weak external backdrop. In 2020 though, growth in domestic demand in CEE is no longer expected to offset external weakness as strongly, bringing GDP growth across these markets lower. Russia and Turkey on the other hand are expected to recover next year. As such, regional GDP growth is forecast to accelerate to 2.6% in 2020 from 2.1% this year.

Table 3.4 Real GDP growth (%) - Eastern Europe

	2018	2019f	2020f
Bulgaria	3.3	3.5	3.0
Czech Republic	2.9	2.6	1.9
Hungary	5.0	4.7	3.1
Poland	5.2	4.0	3.2
Romania	4.1	4.0	2.5
Russia	2.3	1.1	1.5
Slovak Republic	4.1	2.6	2.4
Turkey	2.8	0.1	2.8
Eastern Europe	3.3	2.2	2.6

Sources: Oxford Economics, Atradius

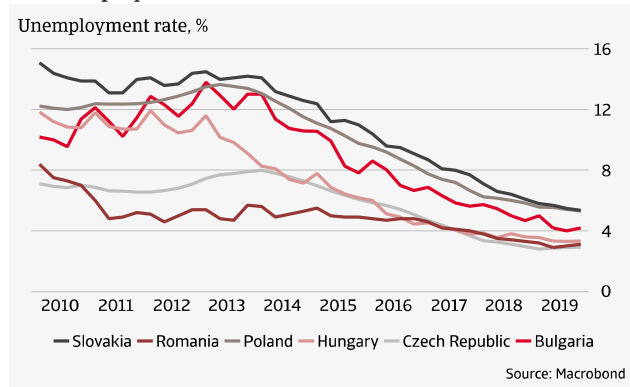
Central & Eastern Europe: momentum easing as supply constraints increase

The economies of Central and Eastern Europe (CEE) are all facing economic moderations in the coming year and a half. As the regional business cycle matures, the gloomy external backdrop – especially due to the region's close ties to Germany industry – and increasing supply-side constraints are taking some of the wind out of the sails of these resilient economies.

Geographical proximity to high-demand markets, a skilled labour force, and competitive cost advantages have fuelled investment in CEE. While this has driven economic development and convergence, it also makes for vulnerable growth models. Most CEE economies are extremely open with exports accounting for more than 80% of GDP in Slovakia, Czech Republic, and Hungary. The bulk of regional exports stay within the EU. As most exports are intermediate goods destined for Germany for assembly and export elsewhere, the region is not just subject to German, but global demand. CEE is highly integrated in global value chains –

especially the automotive one, followed by aerospace, electronics, apparel and shoes.

3.6 Unemployment at historical lows across CEE



While prospects for exports dim further, domestic demand is fuelling growth in CEE. Regional GDP growth was robust in the past couple years, in part driven by pro-cyclical fiscal policies, but more importantly very tight labour markets. Since 2013, unemployment across the region has been steadily falling which has been accompanied by accelerating wage growth. Romania stands out in the region with large minimum wage hikes fuelling 35% growth in incomes in 2018. Robust wage growth has been key to supporting private consumption – mitigating the effects of slower trade growth – but it is also increasingly a threat to investment as companies search for less expensive production elsewhere. With less room for further tightening but growing labour shortages, wage growth is set to continue in 2020, but at a slower pace.

For now, domestic demand should be sufficient to sustain another year of relatively strong GDP growth across the region. Hungary and Romania are nearly matching 2018's performance and Bulgaria is accelerating on the back of robust private and public consumption. However, as labour market gains lose steam and structural issues such as ageing and emigration further limit the supply of labour, the medium-term prospects are less rosy.

Russian economy grappling with sanctions

Last year the Russian economy expanded 2.2%, its fastest pace since 2012. However, negative developments in the oil price, sanctions and geopolitical tensions are taking their toll on the Russian economy. As a result, annual growth since 2014 has been 0.8 percentage points lower than expected.

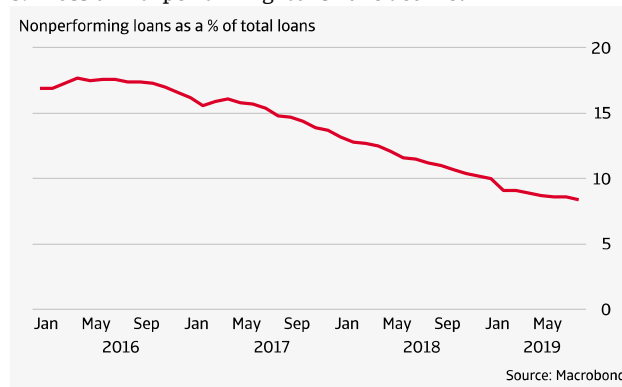
In 2019 growth is expected to slow to 1.1% due to the VAT increase per 1 January, the depreciation of the ruble and the lower than expected oil price. Domestic demand will weaken, but still make a positive contribution to growth. Due to the high base effects from 2018, investment is likely to contract by 1.5% this year. High funding costs (to a large extent driven by sanctions risk) and weak property rights are still holding back private sector investment.

Against a backdrop of disappointing growth and inflation approaching the 4% target, the Russian central bank has cut the policy rate for the third time this year. This brings the main policy rate to a level of 7%. With most risks tilted towards disinflation, the central bank signalled further rate cuts at one of the upcoming meetings.

The government budget is likely to post a surplus of 2.2% in 2019. In the coming years the government will shift to a slightly more accommodative fiscal stance. The government has formulated twelve National Projects that should receive funding from the government budget (with overall spending amounting to USD 380 billion). Yet, the implementation has been slow, with no visible impact on growth so far. It is expected that the government will increase spending somewhat, but fiscal prudence will get priority.

The situation in the banking sector has improved. The government has continued its clean-up of the sector. The number of active credit institutions was reduced from over 900 in 2013 to 469 per May 2019. Nonperforming loans (NPLs) are still somewhat elevated (8.4% in July 2019) but much lower than in 2016, when the NPL-ratio reached almost 18%. The banking sector as a whole is also well-capitalised - total capital amounted to 12.1% in May 2019.

3.7 Russian nonperforming loans have declined



New round of sanctions

The US Department of State imposed a fresh round of sanctions on Russia in August 2019 in response to the poisoning of the former Russian intelligence officer Sergei Skripal and his daughter in the UK in 2018. The sanctions prohibit US banks from participating in the primary market for non-ruble denominated sovereign bonds and lending non-ruble denominated funds to the Russian sovereign. US investors, however, can still participate in secondary markets and the measures will therefore not result in a sudden sell-off of existing sovereign debt. Further US sanctions are likely this year, but it is not expected that these will be stringent, such as on Russian ruble-denominated debt or state-owned banks.

Turkey: end of recession, risky jumpstart ahead

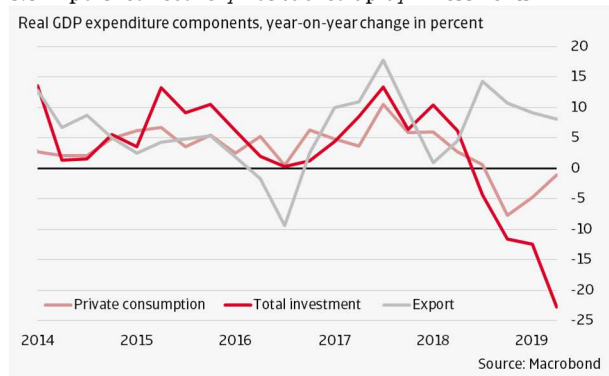
Turkey's economy has come out of its two-quarter long recession. Inflation dropped to single digits in September.

However, it is too early to give the all-clear signal. The stronger-than-expected rebound of real GDP growth in the first half of 2019 was the result of fiscal stimulus in the run-up to the local elections in March and the re-run of the mayoral election in Istanbul in June. The sudden sharp fall in inflation was due to base effects and will be partly reversed. Economic activity is forecast to expand only 0.1% in 2019 and 2.8% in 2020.

The New Economy Programme (NEP) for 2020-2022 is ambiguous. Government consumption will be reined in to contain the budget deficit below 3% of GDP. The ambitious 5% annual growth target seems therefore only achievable when Turkish authorities hold on to the credit-led growth model that proved so disastrous. Several policy measures point in this direction. The dismissal of the central bank director by President Erdogan in July marked the start of aggressive monetary policy easing. The policy interest rate has already been slashed by 10 percentage points, in three steps, to 14%. In August, additional measures to revive lira-denominated bank lending were announced. At the same time, the NEP aims to sustain the impressive improvement in the current account balance, counting on net exports as a new growth driver. Not only do export- and credit-led growth objectives seem at odds with each other, they both present challenges.

To make an export-led growth strategy work, Turkey should use the election-free period until 2023 to raise productivity and improve its international competitiveness position. Otherwise, it is unlikely that export growth can be sustained around the current above-average rate of 8% after the impulse of the lira depreciation wears off (see figure 3.8). The trade outlook is mixed. While Turkey would be negatively affected by a no-deal Brexit – given the customs union agreement it has with the EU – it could potentially benefit from the US-China trade war by expanding exports of agricultural products to China and apparel to the US. So far, the prospect of a USD 100 billion trade deal seems to be mainly used by the US as political leverage over Turkey.

3.8 Export-led recovery not backed up by investments



A renewed credit push will re-boost demand of imported goods on which Turkey's economy is so dependent. Moreover, credit expansion is more likely to revive consumer spending than productive investment in export-oriented sectors. Corporates are less inclined to take out loans given their already large debt overhang of 70% of GDP, which is painfully illustrated by the increasingly severe contraction of fixed investments by 23% y-o-y in Q2 2019. Turkish banks are not in the best position to take on more

loans either. Although they are still well-capitalised, banks are in the middle of a loan restructuring process with the regulator asking them to recognise more non-performing loans. It is therefore not surprising that the current uptick in lending is still cautious and mainly driven by state-owned banks.

Turkish companies remain vulnerable to exchange rate risk and further interest rate cuts. In combination with geopolitical tensions these could trigger another currency crash. So far, the depreciation of the lira, since Turkey's incursion in Northern Syria, has been contained. Europe's response of restricting arms exports to Turkey has been weaker than expected, while the US president appears to have accepted the enlarged safe zone claimed by Turkey and scrapped the few sanctions that it had imposed. However, the situation in Northern Syria is still volatile, while Turkey's purchase of a Russian missile defence system and the alleged Iran dealings of state-run Halkbank are other contentious issues. New sanctions that hit trade and/or push up the cost of capital are therefore not unthinkable and could derail Turkey's two-pronged growth strategy.

MENA: non-oil sector pickup prevents recession

Headline economic growth in MENA is on track to slow to 0.8%, the lowest rate in decades. Extension of OPEC-led oil production cuts to March 2020 and subdued oil prices reflecting the slowdown in global demand are the main reasons for this historic downturn. The direct impact of the US-China trade war is relatively limited in this region. The deeper-than-expected recession in Iran (-7% growth in 2019) does weigh on regional growth, but the sanction impact will start to fade in 2020. The US is not likely to succeed in forcing down Iranian oil exports much beyond the 400,000 barrels per day that it reached after the US did not extend oil import waivers in May.

Table 3.5 Real GDP growth (%) - MENA

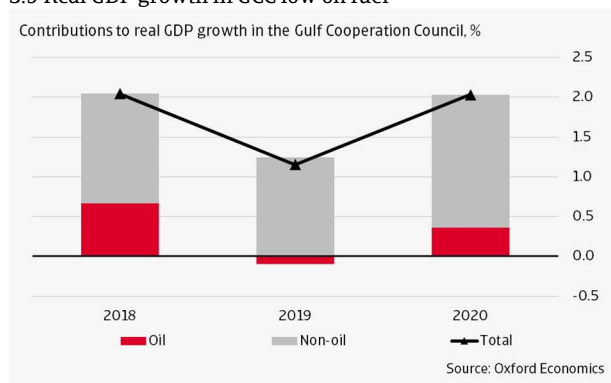
	2018	2019f	2020f
Egypt	5.3	5.6	5.5
Morocco	3.0	2.4	3.3
Qatar	1.5	0.0	2.5
Saudi Arabia	2.4	0.5	1.9
Tunisia	2.5	1.4	2.2
United Arab Emirates	1.7	2.2	2.2
MENA	2.0	0.8	2.6

Sources: Oxford Economics, Atradius

Regional tensions have flared following the September attack on Saudi oil installations. However, Saudi oil production was quickly restored, the oil price spike was brief and business sentiment in Saudi Arabia is at its highest level since 2015. With the potential cost of regional conflict becoming increasingly clear and US military intervention unlikely, intraregional ways to de-escalate are being explored.

Weak oil performance will be partly offset by a pickup in non-oil activity (see figure 3.10). Unfortunately, progress in economic diversification has been too little for non-oil growth to be self-sustaining. The expected rebound in headline GDP growth to 2.6% in 2020 therefore hinges on a recovery of oil and gas income, which remains key for bank liquidity and public support to other sectors.

3.9 Real GDP growth in GCC low on fuel



Improvement in the construction sector builds on investments in infrastructure and housing projects, supported by the intermezzo of fiscal expansion in Saudi Arabia and the United Arab Emirates (UAE). This is recently complemented by monetary easing. MENA countries that have an exchange rate peg with the dollar have mostly followed the latest policy interest rate cuts of the US Fed. This is welcome, because private credit growth is still muted in some of them, including in Saudi Arabia and the UAE. Non-oil sectors will also benefit from the Dubai Expo 2020 and the World Cup soccer in Qatar in 2022.

Low inflation or even deflation throughout the MENA region is another sign that domestic demand is still feeble, although commodity price weakness and the strong dollar also play a role in the lack of price pressure. House prices in the UAE and Saudi Arabia are still declining due to oversupply and the outflow of expatriates. The main exception is Iran where inflation spiked above 40% due to the currency crisis and sanction-related import limitations.

Although fuel-importing countries benefitted from low oil prices, economic growth in most of those countries (except Egypt and Morocco) remains anaemic due to lack of structural reforms and will only accelerate modestly in 2020. Egypt continues to outperform with real GDP growth around 5.5%, enjoying a luxury mix of large policy interest rate cuts and renewed capital inflows. Morocco's growth prospects remain decent, but the usual agricultural production volatility and economic slowdown in main trading partner, Europe, are responsible for a lean year.

Because of lower oil revenues, higher government spending to support growth and delayed fiscal reform measures, public finances of oil-exporters continue to deteriorate. Introduction of the Gulf Cooperation Council (GCC) wide value added tax is postponed in Qatar (to 2020) and Oman and Kuwait (to 2021). Fiscal breakeven oil prices are still well above the current market price for Oman, Saudi Arabia, and Bahrain, with Algeria and Iran at respectively USD 130 and USD 155 per barrel topping the list. The resulting rise of

public debt levels is facilitated by easier global financing conditions and the ongoing search for yield. This year the Eurobond issuance by GCC countries already exceeds the annual amount issued in 2018. In 2020, there will be only a few MENA countries left with debt levels significantly below 60% of GDP (including Kuwait, Saudi Arabia, the UAE and Iran), while public debt levels will be close to or above 100% GDP in Jordan, Bahrain and Lebanon.

In Algeria, Lebanon, Bahrain and Tunisia weak public finances are compounded by unrelenting external pressure. Current account deficits are high and reserves low or declining. In Lebanon, the dollar peg has come under so much pressure that the central bank decided to prioritise access to foreign currency and banks were shut for two weeks out of precaution. Here the need for reforms is finally starting to sink in. In the wake of Bahrain's Fiscal Balance Program and Tunisia's continued (albeit minimal) adherence to its IMF programme, ambitious reform packages have been announced in Lebanon as well as in Algeria. Implementation risk is nevertheless high due to unstable political situations and widespread protests.

Uncertainty contains growth in Sub-Saharan Africa

Slowing trade growth and uncertainty regarding global trade policies are constraining economic growth this and next year in the Sub-Saharan African (SSA) countries. Economic growth is expected to reach 2.6% this year and 3.2% next year. Although this year economic growth is more or less the same as in the previous year, growth has been revised downward due to the external uncertainties. Moderate commodity prices are mainly hampering the economic growth in the region, especially in the oil-exporting countries. As the commodity-exporting countries (Nigeria, South Africa) are the largest economies in the region, the subdued growth figures in these two countries drag down the regional figure. Next to low commodity prices both countries face various domestic problems (policy uncertainty being the main problem) which are having a negative impact on their economies resulting in spill over to their neighbouring countries.

Table 3.6 Real GDP growth (%) - Sub-Saharan Africa

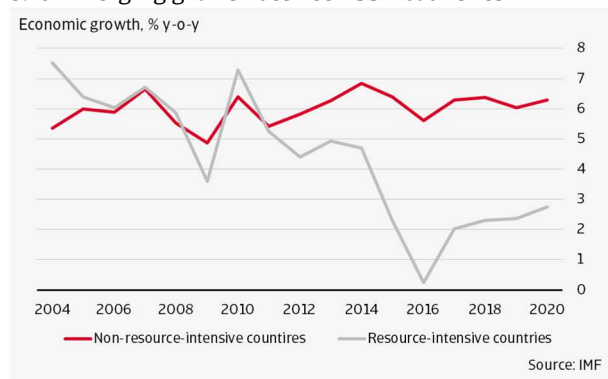
	2018	2019f	2020f
Ghana	6.3	5.7	5.4
Kenya	6.4	5.5	5.6
Nigeria	1.9	2.1	2.3
South Africa	0.8	0.3	0.9
Sub-Saharan Africa	2.5	2.6	3.2

Sources: Oxford Economics, Atradius

Investments and private consumption will support economic growth in the region. Nevertheless, many countries need to reduce their fiscal deficits and maintain debt sustainability, and public spending will be less

supportive in some countries (Cameroon, Gabon, Ethiopia). For a number of years now, growth has been diverging between the resource-intensive countries and the non-resource-intensive countries (Kenya, Ethiopia, Senegal).

3.10 Diverging growth between SSA countries



External risks for the outlook are the increasing trade tensions, a sharper-than-expected economic slowdown in China and Europe (both important export destinations for many SSA countries) and deterioration in financing conditions. Although global financial conditions have eased due to the expansionary monetary policies in the US and the eurozone the risk premium for African countries can increase quite abruptly when sentiment deteriorates and risk appetite fades. This would be particularly harmful for countries that have increasingly relied on financing from the international capital markets (Ghana, Côte d'Ivoire, Kenya).

Internal challenges could aggravate slowdown

Domestic risks range from vulnerability to weather-related shocks to deterioration in the security situation to uncertain elections. Many African countries are vulnerable to changing weather patterns due to climate change. This year it was clearly visible in the severe drought in East Africa (Ethiopia, Kenya) and Southern Africa (Namibia, Zambia) and the two cyclones earlier this year, which hit Mozambique and other southern countries. The growing threat of terrorism is deteriorating the security situation in the Sahel region. Other countries where the security situation could deteriorate are those countries where elections will take place in the coming year. Several countries will hold elections, of which Ghana, Cote d'Ivoire, Ethiopia and Tanzania are the most prominent. Of these countries the elections in Cote d'Ivoire are closely watched as here the situation is particularly fragile due to its history of instability. Fiscal slippages are also common in some of these countries in election years (Ghana) and could increase debt vulnerabilities, which already poses a high risk on debt distress.

Interventionist policies hamper Nigerian growth

The economic recovery is slow in Nigeria. Economic growth is only expected to reach 2.1% this year, slightly higher than last year. Although higher oil production gives some support to the economy, it is the non-oil sector that is lagging. Growth in the agriculture sector is especially low due to security issues in the Middle Belt, which have disrupted agricultural supply. The implementation of higher minimum wages is slow and constraining private consumption. Investments are low due to the protectionist policies of the government and the central bank. There are still currency restrictions in place hampering doing business, creating uncertainty and contribute to the wait-and-see attitude of investors. Interventionist policies are expected to remain and therefore the outlook is challenging. Economic growth is expected to increase slightly to 2.5% in 2020. High debt-servicing obligations and low government revenues restrict government action. The high inflation also limits the central bank's flexibility in supporting the economy. More recently, the closing of land borders for all goods (to combat the smuggling of rice) will put upward pressure on consumer prices. The central bank could introduce more unconventional measures, including more forex restrictions, should the reserves decline sharply.

Reforms needed to boost growth in South Africa

Economic growth rebounded strongly in South Africa in Q2 after a sharp contraction in Q1. The reason for this was the ending of power cuts, which was especially positive for mining. Despite the strong rebound, it is expected that economic growth will be only 0.3% this year. Policy uncertainty and structural weaknesses will constrain economic growth in the near term. Next year economic growth is forecast to gradually increase to only 0.9%. Confidence indicators are low among households and businesses and should only improve gradually as it seems that policy uncertainty will not diminish in the short term. The introduction of reforms is very necessary to support the economy and create enough jobs, but the government is moving slowly. The main reason for this is that President Ramaphosa is facing strong opposition. The debt-loaded state utility company Eskom needs a drastic restructuring due to its negative impact on the economy through its power cuts and its drag on government finances. Because of the weak government finances, the government has limited room to support the sluggish economy. Some support could come from interest rate cuts earlier this year. Although there is room for more interest rate cuts due to the moderate inflation, the weak rand will limit this. Maintaining a relatively large positive interest differential with the US is necessary to guarantee a sustained portfolio-inflow to finance the current account deficit. The rand is one of the most volatile currencies in the world in 2019 as it is highly vulnerable to changes in market sentiment due to external and internal challenges.

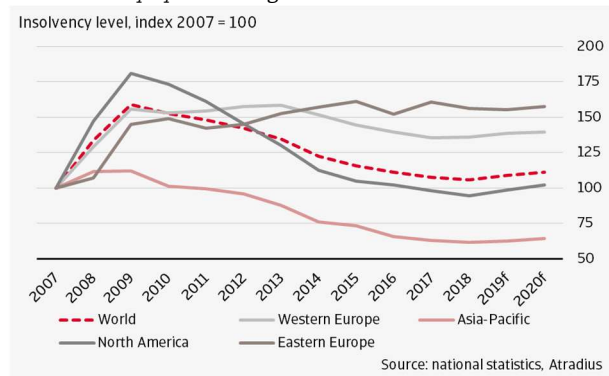
4. The insolvency environment

Global insolvencies on the rise

The global insolvency outlook is increasingly cloudy. This is to be expected in line with the maturing business cycle, especially in advanced economies. But the global industrial downturn and US-China trade war are compounding challenges for businesses. The bleaker world trade outlook and trade policy uncertainty are weighing on business sentiment and investment growth, increasing financial risks. Moreover, we estimate that insolvencies are more sensitive to trade uncertainty than GDP. Trade barriers may bring some sector gains, but losses in other sectors. For instance, US steel tariffs, which may protect some steel producers at the expense of manufacturing sectors reliant on steel. This sectoral switch may not budge GDP growth but the aggregate number of business failures is bound to increase.

We now forecast a 3% increase in corporate insolvencies in 2019, a full percentage point higher than we forecast in May. The upward revision primarily comes through worse-than-expected developments in North America, which is now expected to surpass Western Europe in the rate of insolvency growth. The annual increase is broad-based though, with insolvencies on the rise across nearly all regions including emerging market economies (EMEs). Eastern Europe is the only region that is not facing higher insolvencies this year, but with only a 0.8% improvement, the region's outlook isn't particularly bright.

4.1 Insolvency cycle turning for the worse



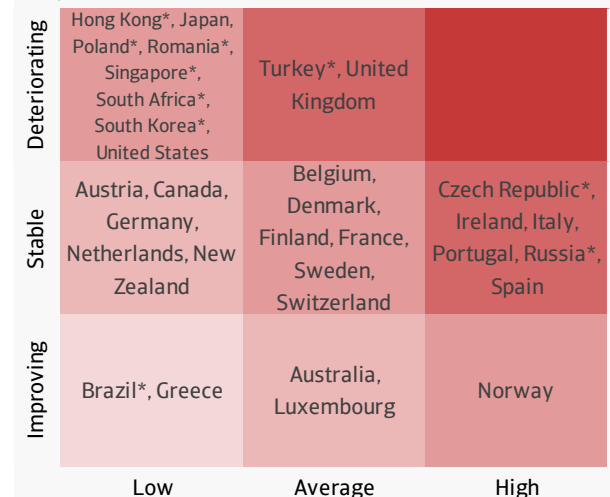
2020 is likely to bring another year of elevated insolvencies but easing monetary policy should provide some support for economic growth and corporate activity. We project another 2.6% increase in business failures in 2020. The upward trend will extend to Eastern Europe as supply constraints, low external demand, and diminishing profits increasingly challenge businesses there. Insolvency growth is also expected to accelerate in Asia-Pacific, especially amongst manufacturers of high-value technology products like Japan and Korea. The number of insolvencies will rise again in Western Europe and North America but the rate is likely to

slow thanks to more accommodative financing conditions. This outlook, however, depends on no further deterioration of trade relations – either between the US and China, or even more importantly, the US and Europe.

Among the countries we assess, one in three are facing deteriorating insolvency conditions next year. The largest increases are forecast in the United Kingdom and Hong Kong (both +7%), followed closely by Turkey, Singapore, and Romania (+5% each). Moreover, more than twice as many countries within the 'stable' category are anticipating an increase in business failures than a decrease (stable range is bound by +/- 2%). As another sign of a turning insolvency cycle, most countries that have low levels of defaults relative to 2007 are facing rising insolvencies in 2020.

4.2 Most countries to see stable or worsening insolvency levels in 2020

Horizontal axis represents expected change in 2020; vertical axis, level relative to 2007



* indicates new countries surveyed based on data availability

Source: Atradius

While the 2019 and 2020 insolvency outlook is pessimistic, the upswing in insolvencies is relatively contained within 3% per year in comparison to the more than 30% increase in 2008 and 25% in 2009. If any downside risks play out that bring the global economy into recession in 2020, significant upward revisions may be seen. Should a global recession take place, it is highly unlikely that it would be as deep as the Global Financial Crisis in 2008 and 2009. But after nearly a decade of exceptional monetary stimulus, global corporate debt has increased significantly. This has increased companies' vulnerability to economic and financial shocks.

Weak industrial output weighs on European outlook

Weaker economic growth is causing the number of Western European businesses going bankrupt in 2019 to increase by an expected 2.3%. This marks the first annual increase for the region since 2013. In 2020, a smaller increase of 1.3% is forecast. The slowdown in growth reflects prevailing weakness of international trade and global uncertainties, which are weighing on the manufacturing sector, particularly in Germany. Slowing economic growth, the broadening of tariffs between the US and China, looming uncertainty surrounding Brexit and Italian politics are key drivers of the upswing in business failures across Western Europe. Those factors also pose negative risk to financial stability and corporate solvency in 2020.

UK driving up regional average

The **United Kingdom** is facing the highest increase in insolvencies in Western Europe both in 2019 and 2020. The upward trend in business failures observed in 2018 has continued through the first three quarters of 2019. The third extension of Article 50 pushed back the UK's departure from the EU from 31 October 2019 to 31 January 2020. In the meantime, general elections will be held which are likely to be volatile and have a significant impact on the Brexit process. This ongoing uncertainty will continue to drag on business investment and put upward pressure on insolvencies.

2020 will be another difficult year for UK businesses with a further 7% increase in insolvencies expected. This forecast is based on a meagre 1.1% expansion of the economy under the scenario of a smooth transition in H1 of 2020. Risks are clearly to the downside, especially for industries dependent on intermediate goods from the EU like food.

Elsewhere in Western Europe, outside of the eurozone, **Sweden** is also contributing significantly to the region's upward trend. Domestic demand has been flat since the start of 2018. Investment is being dragged lower by the slowdown in housing construction and by the weak international outlook. Consumption growth is dampened by moderate wage increases and a cooling labour market. Net exports should benefit from the strong competitiveness of Swedish exporters and the past depreciation of the krona, and are set to become a prominent driver of economic growth in 2019. With the Swedish economy slowing, insolvencies are expected to increase by 3% in 2019. This is followed by a stagnation of business failures in 2020.

Eurozone insolvencies ticking up

Insolvencies in the **eurozone** as a whole are forecast to rise 1.2% this year, the first increase since 2013. The expected growth rate is slightly lower than our previous Outlook, largely due to better-than-expected insolvency developments in Italy. Nevertheless, weakness in German industry is weighing on the eurozone outlook and keeps a lid

on growth. Domestic demand is likely to remain fairly resilient in 2019, but exports remain weak in the face of an uncertain international environment and manufacturing weakness.

According to the 2019 Q3 ECB bank lending survey, credit standards eased slightly for loans to businesses, also supported by more favourable funding conditions. The survey points to no change in credit standards for businesses in Q4. As expected, the ECB eased its monetary policy stance after September's meeting, cutting the deposit rate further into negative territory, providing cheap loans to banks and reactivating the asset purchasing programme. This should bode well for lending conditions going forward and help eurozone businesses but the insolvency outlook for 2020 remains subdued.

Growth in **Germany** is cooling from 1.5% in 2018 to 0.6% in 2019. Domestic challenges especially in the automotive sector that began last year are being sustained and worsened by the weak world trade situation. Accordingly, manufacturing sector insolvencies have already increased 2% in 2019. We only forecast a 1% total increase in 2019 though and stabilisation in 2020. This is due to ongoing reductions in insolvencies in the retail trade sector, supported by ongoing robust private consumption.

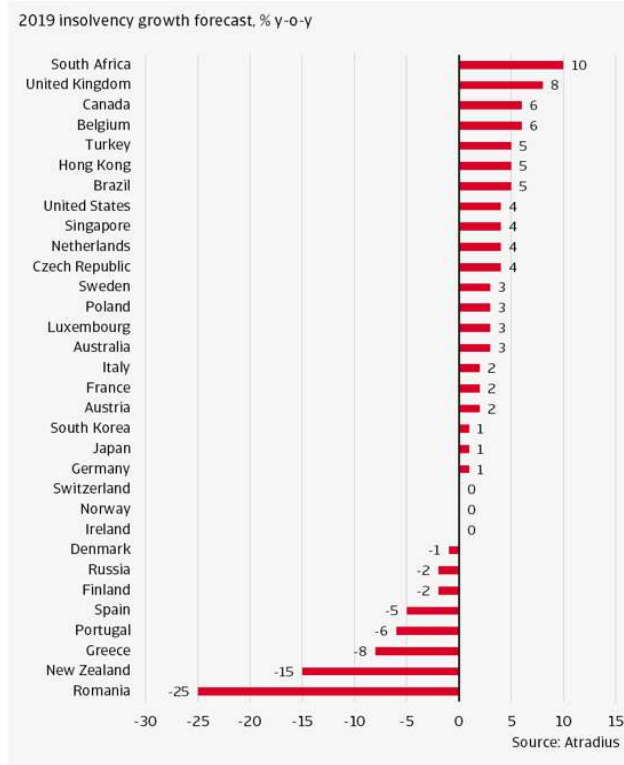
The cooling German industry is weighing on economic activity in other eurozone countries, including the **Netherlands** and **France**. Domestic demand remains the most important pillar of growth in these countries. A tightening labour market is supporting wage growth and consumer confidence remains relatively high. But this is not sufficient to compensate for lower growth caused by the deteriorating external environment. After several years of sharp decreases in insolvencies, this year is likely to mark a turning point. In the Netherlands, business failures are expected to rise 4% in 2019 and 1% in 2020. In France, the number of insolvencies is forecast to increase 2% in 2019 and in 2020.

Spain's economy is slowing but growth remains among the highest in the eurozone. On top of the weak industrial situation and external environment, domestic demand is cooling off more than previously expected. Real incomes are rising but they are translating into higher precautionary savings instead of spending. We now expect only a 1% decline in Spanish business failures. In 2020, the economy is forecast to soften further but with insolvencies still at inflated levels, we project a 2% decline.

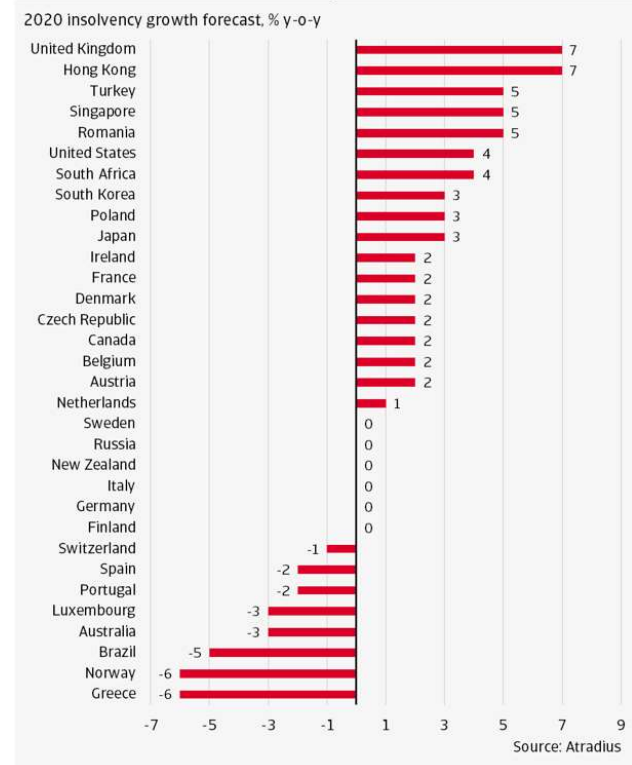
Like Spain, the **Portuguese** economy has seen a swift recovery in recent years, which has positively affected the insolvency level. A 6% decline in insolvencies is expected in 2019 followed by a 2% decline in 2020.

The slow growth path of the **Italian** economy is likely to push insolvencies 2% higher than last year. The insolvency outlook is subject to high political uncertainty, as tensions with the European Commission may rise over budgetary targets. Any escalation is likely to weigh on sentiment and financing conditions of the private sector and could lead to a more protracted downturn.

4.3 Majority of countries facing rising insolvencies in 2019



4.4 2020 outlook remains cloudy



In part due to ongoing Brexit uncertainty, Ireland's insolvency outlook is weak, but following a very big decrease in H1 (down 28.7%), we no longer expect an increase in 2019. While Ireland is a very open economy, the bulk of exports are pharmaceuticals and ICT services, neither of which are overly vulnerable to fluctuations in external demand. However, the economy is cooling off and demand in export markets should remain weak while the domestic economy faces increasing capacity constraints and lower government spending. As a result, insolvencies are forecast to tick up 2% in 2020. However, this forecast is subject to downside risk in the face of high and rising Brexit uncertainty due to Ireland's close economic ties to the UK.

North America leads global increase in corporate failures

North America has taken Western Europe's place since the last Economic Outlook as the region facing the highest increase in insolvencies in 2019. Following a 4.2% rise forecast this year, we expect the region to maintain this unfortunate lead with another 3.9% increase in 2020. Insolvency conditions in the US are projected to be as challenging in 2020 as 2019 but to improve slightly in Canada relative to this year. Both countries face deteriorating conditions both years, with business uncertainty in particular playing a major role.

After a decade of annual improvements in the number of firms going bankrupt in the **United States**, insolvencies are beginning to tick up. Bankruptcies already increased 4% in the first three quarters of the year and this trend is likely to continue in Q4. Thus far this year, firms have been facing

higher financing costs than last year (following the previous Fed tightening path before its U-turn earlier this year), a strong dollar, and the unwinding of pro-cyclical fiscal policy. On top of this, trade policy uncertainty is increasingly biting and weighing on business investment as higher import costs further cut into profits. As such, we expect the upward trend observed thus far in 2019 to continue, pushing the number of corporate failures up 4% compared to 2018.

Monetary policy loosening should cushion US companies from a deeper downturn, but is not expected to be sufficient to prevent another 4% rise in US insolvencies in 2020. Higher import costs and lower investment due to uncertainty surrounding the trade war with China are already beginning to bite some companies. Bilateral trade barriers are causing insolvencies to rise in the agricultural sector. The fragile retail sector in particular is vulnerable to higher import costs and any potential knock in consumer confidence. The Fed's pivot to an accommodative monetary stance also increases credit risks and financial vulnerabilities in the US corporate sector. As shown in figure 2.4, corporate debt has been increasing since the crisis as businesses have had easy access to finance at low interest rates. There is evidence that many firms take advantage of the wide availability of capital to pay out larger sums to shareholders instead of investing in the real economy, increasing their vulnerability to economic and financial shocks. While household finances are in better shape than a decade ago, higher corporate debt and deteriorating creditworthiness could drive insolvencies higher in 2020 than currently expected and amplify the costs of a potential recession.

Asia-Pacific outlook deteriorates on trade woes

In 2019, the advanced economies of Asia-Pacific are also forecast to see their first annual increase in insolvencies since the Global Financial Crisis, but only by 1.2%. The ICT down cycle, trade policy uncertainty, and lower demand in China in particular are straining businesses in Japan, Hong Kong, Korea and Singapore. In 2020, business failures across Asia are forecast to increase another, more substantial, 2.3%.

The number of firms facing bankruptcy in **Japan** is beginning to rise. Industrial production is forecast to contract 1.6% due to the trade war and ICT downturn. Business investment is weakening and confidence is hitting record lows. While we expect this to lead to only a 1% increase this year, these problems are likely to persist into 2020 and to be compounded by the negative effects on consumption of the consumption tax hike. As such, we forecast a 3% increase in Japanese insolvencies in 2020.

Hong Kong, Singapore, and South Korea are also facing similar challenges to their business environments. These Asian economies are reliant on exports of high-value tech products – especially intermediate goods that are exported to China for assembly there. Slower global trade and lower demand for imports in China are contributing to higher insolvencies. Hong Kong is forecast to see the biggest increase in insolvencies in the region (5% in 2019 and 7% in 2020) as political uncertainty exacerbates trade issues.

EMEs also caught in the rising tide of insolvencies

The insolvency outlook for EMEs has deteriorated substantially since the May Economic Outlook. Despite easing global financial conditions, idiosyncratic issues are driving up national insolvencies in many of the markets for which we have national-level insolvency statistics. The outlook for 2020 is also weak with stronger increases forecast in Central & Eastern Europe in particular. Russia and Brazil are expected to see some recovery though.

Financing conditions are generally increasingly accommodative for firms in EMEs. The latest emerging market bank lending conditions survey from the Institute of International Finance (Q1 2019) shows easing in Emerging Europe and Emerging Asia. Latin America was still in tightening territory. At the global level, the tightening trend observed in H2 2018 eased and EME banks expected to see an easing in lending conditions in Q2. Insolvency risks were rising in early 2019, as monetary conditions tightened in line with the US Federal Reserve's monetary policy normalisation path. Higher US interest rates and the corresponding appreciation of the US dollar increased the relative cost of USD-denominated debt and refinancing risks. The Fed's pivot to an accommodative stance supports the expected easing in financial conditions for emerging markets over the remainder of the forecast period.

While easing financing conditions support the EME insolvency outlook, they are not sufficient to offset the downsides coming from idiosyncratic domestic issues and slowing global trade. While not included in our analysis due to data limitations, Emerging Asia is facing deteriorating business conditions. Insolvencies in China have been on an upward trajectory as a natural part of its economic rebalancing from export- to consumption-led growth and the expansion of its formal economy – putting many low-cost manufacturers out of business. Trade tensions are having an increasingly negative impact on some exporting sectors and slowing domestic demand is straining some domestic manufacturing industries, especially automotive. Lower demand in China also spills over into other countries in Emerging Asia, pushing up their insolvencies as well.

In Latin America, the regional slowdown largely related to political uncertainty is straining the business environment. **Brazil** is facing another 5% increase in corporate failures in 2019 after stabilising off at a 29% increase in 2017, in part due to spill-overs from Argentina's recession. Brazil, similar to other Latin American countries, is relatively closed and faces less downside risks from the global trade slowdown. Moreover, the outlook is strengthening thanks to passing of the pension reform bill, which underpins brighter business confidence. With slightly stronger GDP growth and a recovery in industrial production in 2020, Brazilian insolvencies are forecast to decline 5%.

South Africa's insolvency outlook has deteriorated significantly in the past six months. Economic growth is only forecast to expand 0.3% in 2019, constrained by ongoing policy uncertainty – especially regarding how to handle the debt-loaded public electricity company, Eskom – and the slow progress on structural reforms. The scope for monetary support is limited by rand volatility and external uncertainties. Private consumption is further strained by the weak economy and high unemployment rates (nearly 30%). As such we project a 10% increase in insolvencies in 2019 and a further 4% increase in 2020.

Finally, **Emerging Europe** is facing a turnaround in insolvencies over the forecast period. From a sharp decline of 5% in 2018, this should temper to a mild decline of 0.8% in 2019 and to flip to an increase of 1.1% in 2020. The resilience this year is largely due to Central Europe and Russia. **Russia's** economy is slowing significantly in 2019 amid sanctions and declining exports. These difficult conditions are expected to minimise the strong decline in insolvencies in H1 to a 2% decline for the full year. In 2020, insolvencies are expected to stagnate.

Turkey is leading the increase with 5% forecast both this year and next year. Lagged effects from the recession in H2 of 2018 are increasingly weighing on business activity. Furthermore, the credit lending push that is supporting the economic recovery seems to work for consumers but less so for corporates which are struggling with large debt overhang. Fixed investment has contracted nearly 25% in Q2. The risk of another shock to the lira is increasing, which would further add to the already high foreign debt-service burden of companies.

Appendix: forecast tables

Table A1: Macroeconomic headline figures - developed markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Gross government debt (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)			Private cons. (% change p.a.)			Fixed investment (% change p.a.)			Government consumption (% change p.a.)			Retail sales (% change p.a.)			Industrial prod. (% change p.a.)		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Australia	2.7	1.8	2.3	1.9	1.6	1.8	-0.9	0.4	0.3	42.9	44.7	44.5	-2.1	-0.3	-2.1	5.0	3.2	2.2	2.6	1.6	2.2	2.5	-3.5	-0.4	4.0	6.0	3.9	2.2	0.6	1.9	3.4	2.2	2.8
Austria	2.3	1.6	1.2	2.0	1.5	1.5	0.0	0.0	0.0	97.6	94.7	91.7	2.3	2.2	1.8	5.6	2.1	0.5	1.1	1.6	1.6	3.9	3.7	2.3	0.8	0.3	2.0	0.5	0.8	1.3	4.0	2.1	0.2
Belgium	1.4	1.2	1.1	2.1	1.6	1.6	-0.7	-1.3	-1.4	120.4	118.6	116.7	-1.3	1.2	1.4	3.6	2.9	1.4	1.0	0.9	1.6	2.9	3.1	1.1	0.9	1.2	0.8	-0.6	1.1	1.7	1.1	3.9	2.4
Canada	1.9	1.4	1.1	2.2	2.0	2.1	0.3	0.1	0.0	93.6	91.0	88.0	-2.6	-2.1	-2.0	3.2	2.2	0.9	2.1	1.7	1.7	1.2	-2.0	1.0	2.9	2.0	1.0	0.9	0.7	1.2	3.3	0.4	1.3
Denmark	1.5	2.0	1.2	0.8	0.8	1.0	0.5	0.3	-0.2	47.3	45.5	44.4	5.7	7.4	6.9	0.4	4.1	1.4	2.2	1.0	1.3	6.5	-1.9	1.4	0.9	0.2	1.2	1.6	0.8	1.3	2.0	4.3	1.7
Finland	1.7	1.2	1.0	1.1	1.1	1.3	-0.8	-1.3	-1.3	58.6	58.2	58.2	-1.4	-2.4	-0.3	2.2	3.9	0.6	1.8	0.5	1.2	3.4	1.2	1.3	1.5	1.6	1.4	1.9	2.4	1.6	3.4	2.2	1.8
France	1.7	1.3	1.3	1.9	1.1	1.2	-2.5	-3.3	-2.4	127.2	131.1	130.2	-0.7	-0.4	-0.4	3.5	2.3	1.8	0.9	1.2	1.3	2.8	2.7	1.9	0.8	1.0	1.3	2.9	2.4	2.1	0.2	1.2	0.2
Germany	1.5	0.6	0.7	1.7	1.4	1.4	1.9	1.5	0.6	50.6	47.8	46.1	7.5	7.4	6.5	2.3	0.7	0.8	1.2	1.4	1.4	3.5	2.4	0.9	1.4	2.0	1.6	1.6	2.9	1.3	0.9	-3.1	0.2
Greece	1.9	1.7	2.0	0.6	0.3	0.9	1.1	0.5	0.7	210.3	205.1	199.7	-2.9	-1.9	-1.9	8.7	4.9	4.5	1.0	0.6	2.1	-12.0	6.8	6.5	-2.5	2.0	1.0	1.4	0.2	2.2	1.7	1.1	1.9
Hong Kong	3.0	-0.1	0.6	2.4	2.9	2.2	1.3	-2.3	-2.8	0.1	0.3	0.3	4.2	4.1	1.5	3.8	-5.2	-0.4	5.5	0.2	0.7	2.0	-9.2	1.4	4.2	3.4	3.5	7.6	-11.0	-1.2	1.3	-0.1	0.0
Ireland	8.3	4.5	2.7	0.5	1.0	1.5	0.0	0.2	0.3	54.3	50.8	50.6	10.6	-2.9	3.8	10.4	6.8	1.9	3.4	2.7	2.5	-20.5	37.9	-28.5	4.5	3.4	1.2	3.8	4.7	4.8	0.1	3.5	2.7
Italy	0.7	0.1	0.2	1.1	0.6	0.9	-2.2	-2.2	-2.5	148.5	149.5	150.1	2.6	2.8	2.7	1.3	2.2	0.8	0.8	0.4	0.3	3.0	2.1	-0.7	0.4	0.3	0.1	-0.4	0.8	0.6	0.5	-0.8	0.0
Japan	0.8	0.8	0.2	1.0	0.7	0.9	-2.5	-2.8	-3.2	224.2	223.6	224.6	3.5	3.3	3.1	3.4	-2.0	0.9	0.4	0.5	-0.2	1.0	1.4	0.9	0.8	1.4	0.6	1.2	-0.3	0.0	1.0	-1.6	0.9
Luxembourg	2.6	2.0	2.6	2.0	1.8	1.7	2.4	1.5	1.2	21.4	19.3	17.3	4.7	5.2	5.3	4.5	1.5	2.2	4.2	2.3	2.6	-2.7	2.1	3.3	4.0	3.3	2.2	3.6	3.2	3.1	-0.1	-0.2	2.8
Netherlands	2.5	1.6	1.2	1.7	2.5	1.6	1.5	1.4	0.9	64.5	60.4	57.8	10.9	8.0	8.6	3.7	1.8	1.3	2.3	1.5	1.5	3.2	5.7	1.5	1.6	1.3	2.0	2.9	2.2	1.7	0.6	-0.9	0.3
New Zealand	2.8	2.8	1.9	1.6	1.5	2.1	1.4	0.7	0.5	29.5	26.2	24.5	-3.9	-3.4	-3.2	2.5	2.2	1.7	3.3	2.7	1.8	3.7	2.4	1.6	2.2	2.9	1.9	3.0	3.4	2.7	1.5	2.9	1.8
Norway	1.6	1.3	1.9	2.8	2.2	2.0	10.0	9.2	7.8	45.6	43.9	41.7	7.2	4.8	3.2	0.1	1.8	1.6	2.0	1.8	2.1	2.8	4.6	2.4	1.4	2.2	1.6	0.8	0.8	2.2	1.1	-4.3	3.4
Portugal	2.4	2.0	1.4	1.0	0.3	1.1	-0.5	-0.1	-0.4	139.2	135.1	131.8	0.4	-0.6	-0.4	3.8	3.0	1.7	3.1	2.0	1.7	5.8	8.4	3.1	0.9	0.5	0.7	4.1	4.2	0.8	0.1	-2.2	1.4
Singapore	3.1	0.5	1.5	0.4	0.6	1.2	0.4	-0.1	-0.8	113.1	117.6	119.3	17.9	17.1	16.3	5.1	-1.6	1.4	2.7	3.5	2.9	-4.0	0.6	1.9	4.1	3.4	3.6	-1.1	-2.8	1.8	6.9	-2.7	1.7
Spain	2.4	2.0	1.7	1.7	0.7	1.2	-2.5	-2.3	-1.9	114.0	112.5	110.7	1.9	1.6	1.2	2.2	2.3	2.3	1.8	0.9	1.5	5.3	2.2	2.1	1.9	2.0	1.5	0.7	2.3	1.7	0.3	1.1	1.6
South Korea	2.7	1.9	2.0	1.5	0.3	1.4	1.6	-1.0	-1.2	42.5	44.9	46.5	4.4	3.1	2.9	3.5	-1.3	-0.3	2.8	2.0	2.1	-2.4	-3.8	1.6	5.6	5.9	7.2	4.3	1.8	2.1	1.4	-2.2	1.0
Sweden	2.4	1.3	1.3	2.0	1.8	1.7	0.9	0.0	0.2	48.1	46.2	44.5	1.7	3.9	4.0	3.3	4.0	1.2	1.6	0.8	1.7	4.6	-1.0	0.9	0.7	0.9	1.4	1.4	2.7	2.3	2.7	1.6	1.0
Switzerland	2.8	0.7	1.3	0.9	0.4	0.3	1.4	1.1	0.8	27.5	26.1	24.9	9.0	11.0	10.9	4.5	2.5	1.2	1.0	1.1	1.1	1.1	-0.1	0.3	0.3	1.0	0.7	-0.6	-0.3	-0.2	5.5	5.5	1.6
United Kingdom	1.4	1.3	1.1	2.5	1.8	1.4	-2.2	-2.2	-2.4	85.9	84.5	84.5	-4.3	-4.4	-3.4	-0.9	-1.1	0.3	1.6	1.2	1.1	-0.1	0.3	0.7	0.6	2.6	1.4	2.8	3.5	2.0	0.2	-1.3	-1.5
United States	2.9	2.2	1.6	2.4	1.8	2.0	-6.5	-6.7	-6.5	136.7	135.3	137.3	-2.4	-2.5	-2.7	3.0	0.2	1.0	3.0	2.5	2.1	4.1	1.9	1.0	1.7	1.7	1.1	3.5	3.4	2.4	4.0	0.6	-0.1
Eurozone	1.9	1.1	1.1	1.8	1.2	1.2	-0.5	-0.7	-0.8	-	-	-	3.1	2.6	2.6	3.5	2.1	1.4	1.4	1.2	1.3	2.3	1.7	0.0	1.1	1.3	1.3	1.6	2.2	1.3	0.9	-0.9	0.7

Sources: Oxford Economics, Atradius

Table A2: Macroeconomic headline figures - emerging markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Gross government debt (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)			Private cons. (% change p.a.)			Fixed investment (% change p.a.)			Government consumption (% change p.a.)			Retail sales (% change p.a.)			Industrial prod. (% change p.a.)				
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019
China	6.6	6.1	5.7	2.1	2.6	2.9	-3.9	-4.2	-4.6	16.6	17.7	18.8	0.3	1.2	1.1	4.3	1.5	1.7	7.2	6.8	6.5	4.7	4.0	3.9	16.3	5.5	6.6	7.6	7.2	6.8	5.8	5.0	4.1		
India	7.4	5.6	6.8	3.9	3.1	3.8	-3.6	-3.5	-3.4	44.9	46.1	46.1	-2.4	-1.6	-2.0	10.6	4.2	5.3	8.5	4.7	7.0	12.2	4.9	7.4	10.7	11.5	7.9	10.4	6.5	8.7	5.2	2.3	5.9		
Indonesia	5.2	5.0	4.9	3.2	3.2	3.5	-1.8	-2.1	-2.3	34.9	35.1	35.3	-3.0	-2.6	-2.3	6.5	-3.0	1.1	5.1	5.3	5.3	6.7	4.5	6.0	4.8	6.9	6.0	3.7	5.2	6.1	4.5	4.5	3.0		
Malaysia	4.7	4.4	4.0	1.0	0.7	2.2	-3.7	-3.4	-3.5	51.2	55.6	55.5	2.1	3.5	2.8	2.2	0.1	1.1	8.0	6.7	4.4	1.4	-2.4	3.9	3.3	0.9	1.7	8.7	7.7	5.3	3.0	2.9	2.5		
Thailand	4.1	2.9	2.9	1.1	0.9	1.0	-1.6	-1.7	-2.5	34.0	36.0	36.4	5.6	7.0	5.3	4.2	-3.5	2.6	4.6	4.2	3.5	3.8	2.0	2.9	1.8	2.3	3.4	9.6	6.0	3.5	4.2	-3.1	1.2		
Argentina	-2.5	-3.0	-1.3	34.3	53.8	43.4	-4.8	-4.1	-4.4	84.3	93.6	92.5	-4.9	-1.4	0.5	-0.7	8.0	4.2	-2.4	-7.4	-4.0	-5.7	-19.4	-16.2	-3.3	-0.7	0.4	0.1	-4.8	-1.3	-3.8	-5.1	-1.4		
Brazil	1.1	0.8	1.7	3.7	3.7	3.6	-7.1	-6.1	-5.7	77.2	80.8	82.3	-1.2	-1.4	-1.5	3.4	0.7	1.9	1.9	1.4	1.7	4.1	1.6	2.5	0.0	-0.4	0.3	2.2	0.9	1.6	0.8	-1.4	1.6		
Chile	4.0	2.5	2.6	2.3	2.1	2.3	-1.6	-1.8	-1.5	25.6	29.0	28.4	-3.1	-3.1	-3.4	5.1	-5.6	-0.5	4.0	2.6	2.9	4.6	4.4	1.5	2.2	2.4	2.5	4.0	1.6	2.9	2.9	0.7	4.2		
Colombia	2.6	3.4	3.6	3.2	3.5	3.6	-3.1	-2.7	-2.3	52.2	51.8	50.8	-3.9	-4.5	-4.4	3.9	2.7	-0.8	3.6	4.6	2.9	1.5	4.4	4.3	5.6	2.5	2.4	-	-	-	2.9	1.4	3.6		
Mexico	2.0	0.3	1.1	4.9	3.7	3.5	-2.0	-2.0	-2.4	46.8	47.3	47.5	-1.8	-1.1	-1.7	5.6	3.1	1.6	2.2	0.6	1.7	0.6	-4.3	-0.4	1.4	-0.6	1.9	1.5	2.1	1.9	0.1	-1.4	0.7		
Peru	4.0	2.7	3.5	1.3	2.2	2.1	-2.0	-2.3	-2.2	26.7	27.3	28.0	-1.6	-2.3	-2.5	2.7	0.9	4.2	3.8	3.1	3.3	4.8	3.6	3.4	0.8	0.9	3.1	-	-	-	3.6	2.1	3.7		
Venezuela	-19.6	-36.5	-16.3	14223.9	8412.7	2669.2	-16.5	-14.0	-13.5	146.0	282.3	273.0	9.1	25.5	2.8	-38.9	-28.1	-41.8	-20.1	-34.1	-16.2	-37.5	-43.6	-14.1	-9.1	-37.4	-11.2	-18.0	-31.0	-11.5	-2.17	-59.5	7.5		
Bulgaria	3.3	3.5	3.0	2.8	3.0	2.2	0.2	-1.6	0.2	20.5	19.9	20.0	5.4	4.8	3.1	-0.8	3.7	1.5	7.2	3.4	2.6	7.5	3.7	2.8	2.9	3.4	2.1	4.4	1.9	3.2	1.1	1.9	2.1		
CIS	2.8	1.9	2.3	4.4	5.5	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.7	2.5	1.8		
Czech Republic	2.9	2.6	1.9	2.1	2.9	2.1	0.1	-0.2	0.0	30.4	30.6	28.9	0.3	1.2	0.2	4.4	1.7	2.3	3.3	2.9	2.3	7.1	1.2	2.2	3.9	2.9	1.7	5.0	4.9	3.3	3.1	0.5	1.7		
Hungary	5.0	4.7	3.1	2.9	3.4	3.4	-2.2	-1.8	-1.6	70.8	69.6	65.9	-0.5	-0.3	-0.6	4.7	4.3	2.2	5.4	4.5	2.8	16.5	16.7	4.0	-0.5	0.6	0.8	6.7	5.2	3.1	3.8	5.6	3.8		
Poland	5.2	4.0	3.2	1.8	2.2	3.2	-0.5	-0.5	-1.3	49.1	48.7	46.5	-1.0	-0.1	-1.1	6.3	4.4	2.6	4.5	3.7	3.3	9.3	8.6	4.2	4.8	4.0	3.2	6.4	5.1	4.2	5.8	4.4	1.6		
Romania	4.1	4.0	2.5	4.6	3.8	3.3	-2.9	-4.2	-4.0	36.8	38.1	40.4	-4.5	-4.4	-4.9	5.1	1.7	1.0	5.3	4.7	2.9	-2.6	8.3	2.1	2.0	-0.5	2.5	5.6	5.9	2.8	5.0	-3.1	1.5		
Russia	2.3	1.1	1.5	2.9	4.4	3.3	3.0	2.5	1.3	1.1	13.4	13.5	6.8	3.7	2.2	5.5	-2.5	0.9	2.3	2.3	1.6	2.9	2.1	1.8	0.3	0.3	0.9	3.1	2.1	1.2	2.8	2.5	1.4		
Turkey	2.8	0.1	2.8	16.3	16.2	11.7	-2.0	-2.9	-2.3	28.7	32.2	30.4	-3.2	0.1	-0.9	7.8	5.6	2.9	0.0	0.3	3.7	-0.6	-15.4	3.0	6.6	5.5	2.5	1.9	-0.7	3.7	1.1	-1.5	3.0		
Ukraine	3.3	3.4	2.9	11.0	9.0	7.8	-2.1	-2.5	-2.4	60.8	58.0	54.8	-3.3	-3.1	-2.8	-1.6	4.3	3.0	8.8	7.7	2.7	14.3	8.4	4.0	0.3	-1.0	2.6	-	-	-	1.6	1.6	3.0		
Egypt	5.3	5.6	5.5	14.4	9.5	9.1	-9.5	-8.4	-7.3	97.3	87.5	86.0	-2.3	-2.5	-2.4	33.5	0.7	7.5	1.1	0.9	3.1	16.2	12.3	11.3	1.7	3.6	5.4	1.1	0.9	3.1	3.0	2.8	5.7		
Morocco	3.0	2.4	3.3	1.9	0.3	1.2	-3.7	-3.6	-3.4	81.1	81.1	81.2	-5.4	-5.0	-4.7	5.0	3.1	3.5	3.5	3.2	3.5	2.9	2.1	2.8	1.8	2.8	3.3	3.5	3.2	3.5	3.2	2.3	3.6		
Qatar	1.5	0.0	2.5	0.3	-0.3	2.3	2.2	1.1	2.2	48.6	56.9	59.2	8.7	6.7	7.5	4.3	0.5	1.2	4.6	5.3	4.6	0.6	-0.3	0.5	5.4	4.6	4.5	5.2	5.8	5.1	3.8	1.0	1.6		
Saudi Arabia	2.4	0.5	1.9	2.5	-1.8	3.9	-5.9	-7.7	-8.3	19.0	26.9	34.1	9.0	2.7	0.3	6.8	1.3	3.4	1.9	2.9	1.4	-3.0	1.5	1.3	6.0	-3.5	8.3	-	-	-	3.2	-1.0	2.1		
Tunisia	2.5	1.4	2.2	7.3	6.6	5.8	-4.4	-4.3	-4.2	77.1	79.5	80.2	-11.1	-10.5	-10.2	3.9	1.7	3.3	1.1	1.2	1.4	2.9	2.1	2.6	2.1	3.9	1.5	-	-	-	-0.5	-1.1	1.0		
United Arab Emirates	1.7	2.2	2.2	3.1	-1.4	1.7	2.2	0.8	0.2	19.1	21.0	21.7	9.1	6.7	5.4	0.8	1.7	3.0	-0.5	1.1	2.0	-0.4	1.4	1.5	-1.6	1.9	2.0	0.6	2.2	3.1	2.3	2.5	2.2		
MENA	2.0	0.8	2.6	10.0	13.5	11.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.6	0.9	2.1		
Ghana	6.3	5.7	5.4	9.8	9.4	9.3	-3.8	-4.7	-4.9	59.3	61.1	61.9	-3.2	-2.4	-2.5	10.3	4.6	4.8	-0.3	6.9	6.5	-5.0	2.9	4.9	73.7	5.8	4.6	-	-	-	6.3	5.7	6.1		
Kenya	6.4	5.5	5.6	4.7	6.2	5.9	-7.4	-6.4	-6.0	59.2	60.2	60.9	-4.9	-4.2	-4.3	4.0	5.4	6.5	5.9	6.0	6.1	4.6	5.8	6.3	1.0	5.3	6.0	-	-	-	4.5	5.1	6.4		
Nigeria	1.9	2.1	2.3	12.1	11.3	11.2	-4.5	-4.8	-4.9	18.9	19.9	21.9	1.4	-1.2	-0.3	-0.9	5.5	3.1	4.6	3.8	2.1	9.7	3.4	1.9	39.9	-3.2	-2.5	4.6	3.8	2.0	1.9	1.8	1.6		
South Africa	0.8	0.3	0.9	4.6	4.3	5.0	-4.3	-5.6	-6.3	56.7	61.3	64.1	-3.6	-3.6	-4.2	2.6	-2.9	0.4	1.8	1.2	1.3	-1.4	-0.6	1.4	1.9	1.5	1.4	1.5	1.2	1.3	0.0	-0.7	1.0		

Sources: Oxford Economics, Atradius

Table A3 Total insolvencies - annual percentage change

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019f	2020f
Australia	-3	21	4	2	9	1	2	-19	16	-16	-8	3	3	-3
Austria	-6	0	9	-8	-8	3	-10	-1	-5	1	-3	-2	2	2
Belgium	1	10	11	2	7	4	11	-9	-9	-6	9	-1	6	2
Canada	10	-2	-41	-11	13	-11	-2	-2	-1	-7	-6	-1	6	2
Denmark	21	54	-10	-3	-22	4	-15	-21	15	18	-4	7	2	2
Finland	-1	16	25	-13	3	0	6	-5	-14	-6	-10	17	-2	0
France	7	7	14	-5	-1	3	3	0	0	-8	-6	-1	2	2
Germany	-15	0	12	-2	-6	-6	-8	-7	-4	-7	-7	-4	1	0
Greece	-3	-35	68	-35	-4	19	31	-16	-43	-43	14	-32	-8	-6
Ireland	19	113	82	8	7	3	-19	-15	-10	-2	-15	-13	0	2
Italy	-41	22	25	20	8	3	13	11	-6	-9	-11	-7	2	0
Japan	6	11	-1	-14	-4	-5	-10	-10	-8	-6	0	-2	1	3
Luxembourg	7	-13	17	32	8	8	1	-19	3	13	-8	28	3	-3
Netherlands	-13	-14	53	-9	0	19	10	-22	-24	-19	-22	-9	4	1
New Zealand	-5	-35	45	-5	-12	-7	-13	-7	4	3	-22	-7	-15	0
Norway	-6	41	47	-17	0	-13	18	6	-3	-1	4	12	1	-6
Portugal	-12	39	28	21	-5	46	1	-13	12	-6	-16	-4	-6	-2
Spain	18	188	88	-4	15	32	10	-27	-21	-9	10	11	-1	-2
Sweden	-5	7	20	-4	-4	7	4	-6	-11	-5	6	13	3	0
Switzerland	0	-7	24	20	6	3	-5	-10	4	7	3	3	0	-1
United Kingdom	-11	35	14	-18	4	-4	-9	-8	-10	1	-1	10	8	7
United States	42	52	41	-7	-15	-16	-17	-19	-8	-2	-4	-4	4	4

Sources: Atradius, Macrobond, national sources

Table A4 Total insolvencies - index, 2007 = 100

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019f	2020f
Australia	100	121	125	128	139	141	144	117	135	113	104	107	110	107
Austria	100	100	110	101	93	96	87	86	82	83	81	79	81	82
Belgium	100	110	123	125	133	138	153	140	127	119	130	129	136	139
Canada	100	98	58	51	58	51	51	50	49	46	43	43	45	46
Denmark	100	154	139	134	105	109	93	73	84	98	95	101	103	105
Finland	100	116	145	127	131	131	139	132	114	107	96	112	110	110
France	100	107	123	117	115	118	122	121	122	112	106	105	107	109
Germany	100	100	112	110	103	97	89	83	79	74	69	66	67	67
Greece	100	65	109	71	68	81	106	89	51	29	33	23	21	20
Ireland	100	213	387	420	451	464	376	321	289	284	241	209	209	213
Italy	100	122	152	182	197	203	229	254	239	219	195	181	185	185
Japan	100	111	110	95	90	86	77	69	64	60	60	58	59	61
Luxembourg	100	88	103	135	145	157	158	129	133	150	138	176	181	176
Netherlands	100	86	132	119	120	143	157	122	92	75	58	53	55	56
New Zealand	100	65	95	89	79	73	64	59	61	63	49	46	39	39
Norway	100	141	207	171	172	150	176	186	180	179	187	211	213	200
Portugal	100	139	179	216	205	300	303	262	294	277	233	224	211	207
Spain	100	288	540	520	598	791	866	635	501	458	502	558	552	541
Sweden	100	107	128	123	118	126	130	122	108	103	109	124	127	127
Switzerland	100	93	115	138	147	151	143	130	135	144	148	152	152	150
United Kingdom	100	135	153	125	130	124	113	104	93	94	93	103	111	119
United States	100	152	215	199	169	142	118	95	88	85	82	79	82	85

Sources: Atradius, Macrobond, national sources

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