Press release

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Euler Hermes global economic outlook: 10 game changers for 2014

Global GDP forecast to grow 3.1% in 2014, 3.3% in 2015; Global rebalancing as advanced economies contribute 45% of global growth in 2014 and 2015, up from 2% in 2008

PARIS – 4 FEBRUARY 2014 – China's transformation will normalize, and the United States will reindustrialize despite the vagaries of the Federal Reserve's easy money policies, according to Euler Hermes, the world's leading provider of trade credit insurance. These are just two of the top 10 economic "game changers" Euler Hermes has forecast for 2014. In addition, developed economies in North America, the eurozone and Japan should contribute more to global growth, while major elections could create uncertainty in key emerging countries.

"As the global recession from 2008-09 recedes further in our rear-view mirror, central banks around the world have begun to alter their respective monetary policies to adjust to a growth environment," said Ludovic Subran, chief economist at Euler Hermes. "While 2014 will still be a challenging year, many economies will begin to gain more traction, especially as activity is set to be more evenly distributed due to improved prospects for advanced economies."

To learn more about Euler Hermes' perspective, view the full report, "Top Ten Game Changers in 2014."

Game changer #1: *China's transformation will be under control*

The Asia-Pacific region is entering a new "3S-Cycle:" solid, sustainable, but slower. While the Asia-Pacific region will remain the world's economic driver and China its main growth engine, Asia will grow slower (+4.7% per year) compared with the previous decade (+5%). However, this growth will be more sustainable with resilient intra-regional trade acting as a cushion.

Game changer #2: *The United States will reindustrialize with or without easy money*

In the United States, fiscal uncertainty has eased with the Federal Reserve's continued commitment to easy money, albeit at a smaller scale. The labor market has improved, as has the political environment. The continued energy revolution in shale gas and crude oil will flood the market with cheap energy. As a result of these combined dynamics, the manufacturing, auto and housing industries are likely to boost the economy to a 3% growth rate in 2014, compared with 1.8% in 2013.

Game changer #3: *The Eurozone must keep its eye on the ball, but the ball is rolling*

Eurozone 2014 GDP growth is expected to be positive, at 0.9%. The two key growth drivers are southern countries' ability to further implement structural reform and current financing mechanisms remaining intact. The ECB's new Very Long Term Refinancing Operations (VLTRO), for example, should help stimulate bank lending into the real economy.

Game changer #4: *The monetary musketeers and Japan's d'Artagnan*

Continued support by central banks in the U.S., eurozone and Japan will be needed to keep the recovery going. In the U.S., progressive tapering and improved forward guidance will not likely endanger a recovery. Similarly in the eurozone, explicit guidance and targeted liquidity will drive growth. In Japan, "Abenomics" – continued accommodation on monetary policy – expansionary fiscal policy, and structural reforms will determine the direction of that country's growth.

Game changer #5: *"It's the price, stupid!"- When disinflation matters in the advanced economies*

Inflation in advanced countries has moderated since early 2012, with 2013 policy changes in Japan the exception. With China's growth moderating, there is further downside risk to commodity prices and inflation in 2014, while stubbornly high unemployment in southern Europe will continue to put pressure on inflation there.

Game changer #6: *Periphery countries – dodging the liquidity crunch, piggy-backing the recovery*

In 2014, expect Latin America and emerging Europe countries to benefit from a recovery in the U.S. and the Eurozone, and export demand to pick up. However, liquidity will be the main concern in politically fragile countries such as Argentina, Turkey, Ukraine, and Venezuela.

Game changer #7: *Emerging markets, fragility is a policy thing*

Policy is as much of a concern in emerging markets as liquidity, as some countries do not have the capacity to absorb external shocks. Policy tools such as currency intervention and interest rate adjustments will be the key to surviving any kind of downturn. This type of proactive response was evident in Brazil and Thailand last year.

Game changer #8: *Old and new political risk in 2014*

The Middle East and North Africa will remain the regions most beset by political and social change, with fragile political transitions underway in Egypt, Libya and Tunisia. Civil war in Syria will have contagion effects on neighboring Lebanon and Iraq. Other areas of concern include Central Asia, North Korea, Bangladesh and Venezuela. While many of these risks were previously known, upcoming elections in Brazil, India, Indonesia, South Africa and Turkey create additional uncertainties given the fickle nature of the electorate.

Game changer #9: *Building blocks – a new form of protectionism*

While trade alliances such as the Pacific Alliance and ASEAN community are usually considered positive developments, they face difficulties in removing non-tariff barriers. This is particularly of concern as these relationships develop. A 2013 World Bank report noted that removing supply chain barriers could be six times more effective than eliminating tariffs.

Game changer #10: *Global rebalancing – don't put the cart before the horse*

While emerging markets contributed a larger portion of global GDP growth over the last decade than advanced economies, a rebalancing of that growth is taking place. Emerging markets are expected to contribute 55% to global growth in 2014, and advanced economies 45%. This is a substantial convergence compared to 2008, when the contributions were 98% and 2%, respectively. China's economic normalization has played a considerable role in this consolidation, and keeping this balance will require strong foundations politically and appropriate structural reforms.

"While the outlook for 2014 is generally positive, it is clear that many risks remain to the global recovery," added Ludovic Subran. "Political stability and sound policy-making are equally as crucial as accommodative central banks and friendly trade relationships."

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