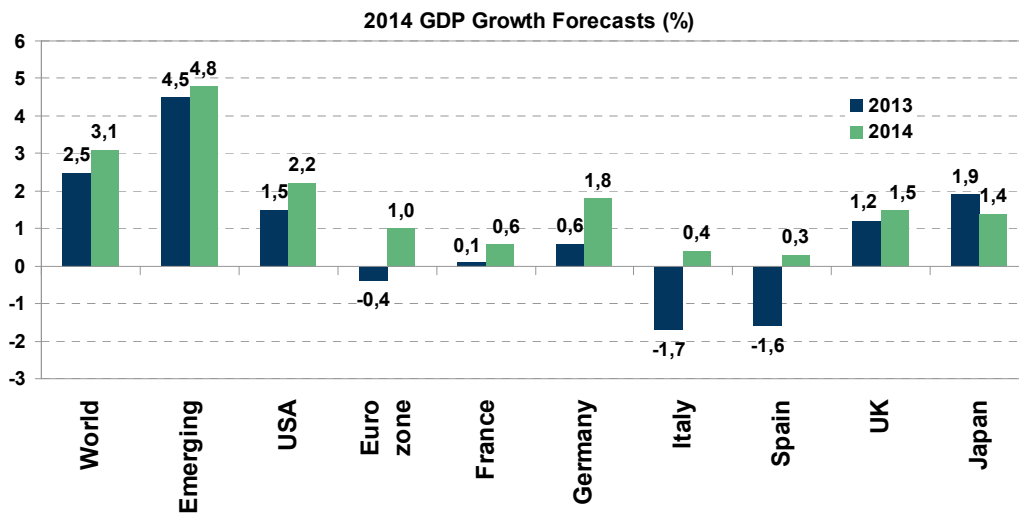


Hong Kong, 12 November 2013

Coface : The euro zone out of recession and growth to accelerate in the US in 2014

After having slowed for three years in a row, global GDP growth is likely to pick up in 2014: we expect it to stand at 3.1% (versus 2.5% in 2013). The upward trend will be mainly driven by the recovery in the euro zone and higher growth in the United States. To some extent, emerging markets will benefit from the higher growth prospects in advanced economies through the trade channel. However, most of them will not recover their pre-crisis growth levels, especially the largest ones.



The United States: Private domestic demand to drive growth in 2014

We expect GDP growth to be comparatively dynamic in 2014, climbing to 2.2% (versus 1.5% this year). Like in 2013, public spending is going to drag on growth in 2014, but to a lesser extent. Beyond public spending, the picture looks rosier on the private domestic demand side. Private consumption is underpinned by lower unemployment (at 7.3% in August), higher disposable income growth (+2.8% yoy in August versus +1.3% in last January), lower saving rate (+4.4%, i.e. a 2 points decrease in the last two years). Combined with a moderate but positive credit growth to the private sector, this illustrates the recovery in access to credit for consumers.

After weeks of uncertainty and political deadlock, a temporary budget was voted until January 15. The Congress will vote a new 2014 budget and reconsider the debt ceiling in next January. This additional budget negotiation poses downside risks on our 2014 GDP growth forecast (2.2%). Indeed, Republicans are likely to bargain some further spending cuts. In addition, the short-term nature of future agreements might erode market confidence. It is believed that the



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debt ceiling could be raised once again in January. But the status of the US Treasury Bill as the risk free and liquid asset could suffer in the longer term.

Euro zone: Growth to be positive but weak in 2014

Second quarter GDP growth figures point to a recovery in the euro zone: growth returned in positive territory after six consecutive quarters of recession. Growth has been positive in **Germany** and **France** (+0.7% qoq and +0.5% qoq respectively). Admittedly it is still in negative territory in **Italy** and **Spain**, but the magnitude of the recession has abated significantly. We forecast **euro zone GDP growth** will stand at **1.0% in 2014** (versus -0.4% in 2013), i.e. a positive but weak number by historical standards. This illustrates the recent pickup in leading indicators such as business confidence and industrial production within the monetary union, as some companies – especially from exporting manufacturing sectors - have started to reinvest after having restored their margins and made price competitiveness gains.

‘However, even though the pace of adjustment has been reduced and fiscal targets have been postponed by the European Commission, fiscal consolidation will still drag on growth in the euro zone next year. Moreover, euro zone growth continues to be dragged down by very tight bank credit conditions, especially in Spain and Italy.’ said Julien Marcilly, Head of Country Risk, Economic Research Department of Coface.

Emerging markets: Growth is slowing in the bulk of large emerging economies

While a pickup in growth is materializing in advanced economies, large emerging market ones are slowing in 2013 (see Appendix 1). Admittedly activity is likely to rebound slightly in most of them in 2014, but only on the back of higher exports related to the brighter growth prospects in advanced economies. But besides this short-term boost on the export side, large emerging economies are suffering a structural slowdown in growth due to reasons of infrastructure weaknesses, high private sector debt and inflation. Therefore, growth will remain much lower than the 2000-2011 average next year. Our 2014 GDP growth forecast stands at 7.0% in **China** (versus 7.5% expected in 2013), 5.0% in **India** (5.5%), 2.9% in **Brazil** (2.3%) and 2.8% in **Russia** (1.9% in 2013).

Growth will remain dynamic in emerging Asia in 2014 (close to 6.0% for the region as a whole. Growth prospects in advanced economies are positive for emerging Asian export-oriented economies. Most East Asian economies will also continue to benefit from a robust domestic demand related to their expanding middle class (higher household income, low unemployment, easier access to credit...). The **Philippines** is a good example. But on the other hand, household spending is likely to moderate in countries suffering from a high household debt, such as **Korea** and **Thailand** (where growth has been in negative territory in both Q1 and Q2 2013).

Focus on China : banking, property and steel

In **China**, despite the expected pickup in exports, the economy is likely to slow a bit further as a result of slowing credit growth. This moderating credit cycle is required to correct past excesses: the overall private sector debt, including shadow banking credit, now accounts according, estimations, to 200% of GDP, i.e. by far the highest figure among large emerging market economies.



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'The proliferation of other forms of credit beyond bank lending is a source of growing risk from a financial stability perspective. As some selected sectors in China are dealing with overcapacity issues and the government is determined to tackle the issue actively; a restructuring process should be on the way. It would also lead to vulnerability to lenders, both traditional and non-traditional institutions.' said Rocky Tung, Economist for the Asia Pacific region of Coface.

Property prices are still rising and demand remains high in 2013, as both transaction volume and prices have climbed quite substantially. The Chinese government is monitoring the development of the market very closely and emphasize on prevention of asset inflation. To prevent over-enthusiasm in the property market, further tightening measures could be on the way if real estate prices rise further in the coming months.

Although slight recovery has been observed in the steel industry in 2013, issues related to overinvestment, overcapacity and low profitability are still clouding the sector in the near-term and beyond. In October, the State Council has prepared a proposal targeting at solving the overcapacity issues in the country. The proposal has vast implication for industries including but not limited to steel, and we believe the country leaders are determined to actively engaging the industry players to solve such structural issues.

Today's 2013 Country Risk Conference in Hong Kong attracted around 200 people, who shared expert opinions on the challenges and opportunities facing Hong Kong exporters to major countries and regions. Top economists and analysts from renowned companies including Hong Kong Trade Development Council, Agricultural Bank of China International Securities, The Royal Bank of Scotland, together with representatives from the Federation of Hong Kong Industries and the Hong Kong Exporters' Association, gave their insights on economic developments in major countries around the globe.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2012, the Group posted a consolidated turnover of €1.6 billion. 4,400 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.

In France, Coface manages export public guarantees on behalf of the French state.

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APPENDIX

Appendix 1: 2013-2014 GDP Growth Forecasts - BRICS

